THE TASTE OF LUXURY

BERNARD ARNAULT AND THE MOET-HENNESSY LOUIS VUITTON STORY

NADEGE FORESTIER

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The moral right of the authors has been asserted

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PREFACE

This edition of *The Taste of Luxury: Bernard Arnault and the Moet-Hennessy Louis Vuitton Story* is the result of a team effort to make this out-of-print book available to contemporary readers.

K originally emailed me asking if I could find a digital version of the book, a task I take great pride in never failing at—even if it means creating my own edition.

Hard copies are shockingly difficult to find, despite two publishing runs: 1992 (Bloomsbury) and 1999 (DIANE). A heartfelt thanks to C, who tracked down a first edition in a library and manually scanned every page.

I have re-typeset the book from the scans. Obvious typos—which seemed to increase as the book went on (tired translators?)—are fixed in this edition. The original book's use of space-hyphen-space instead of proper em dashes has been fixed throughout this edition.

While it pained me greatly that Oxford commas were absent in the original book, this edition maintains that terrible decision for fidelity's sake. I hate it.

Photographs in this edition are slightly distorted because the book was scanned with a flatbed scanner with the pages curving towards the open spine. I did my best to restore them.

The copyright page is verbatim from the scan, and the index refers to pages in the original book which don't apply to this digital edition—both are presented in their original form for fidelity.



Aut inveniam viam aut faciam.

PROLOGUE

> 'I am the boss. I shall be here on Monday morning and I shall be running the company in person.'

LVMH (Moët-Hennessy Louis Vuitton) had entered a new chapter of its history: Bernard Arnault had taken power. He did not realize how harsh his words sounded. That was not the type of thing he cared about. For him, the stakes were altogether different. Yesterday he had taken over Boussac, the ailing textile empire; today he was in control of LVMH. A few days before his fortieth birthday this youngster from the north of France was at the head of the most expensive company in France. As chairman of the world's leading manufacturer of luxury goods, he now owned the most prestigious French brands: Christian Dior, Christian Lacroix, Givenchy, Moët et Chandon, Veuve Clicquot, Hennessy and Louis Vuitton, all acquired in less than five years. He was the first of a new breed of capitalist.

Friday l3 January 1989 was the day he took office. By 9.30 am, the fifteen people invited to witness the event at LVMH's head office were beginning to filter into the large recently redecorated conference room with its beige carpeting and a mahogany table that stood out against its white walls. The members of the board of directors and supervisory board of the group had received notice the day before of an extraordinary meeting. They had each played a decisive role in this affair, which had all the makings of a Greek tragedy.

Polite words were exchanged. Dressed in a dark suit, a serious Alain Chevalier, the outgoing chairman of LVMH, carefully observed those who had been active behind the scenes. Some—those closest to Arnault—were jubilant: his father Jean, of course, but also Pierre Godé, his *éminence grise,* and Antoine Bernheim, the star partner from Lazard's Bank, his mentor. Some were putting a brave face on it: Alain de Pracomtal, for example, chairman of Hennessy, one of the oldest subsidiaries in the group, and Anthony Tennant, chairman of Guinness and not always the easiest of partners in Arnault's rise. They had joined LVMH together. Finally

there were those who had clearly come off worst: Bruno Roger, the other star associate from Lazard's who had supported Alain Chevalier to the end (a little too zealously perhaps), Jean Ogliastro, one of the leading figures in the Vuitton clan, and his brother-in-law Henri-Louis Vuitton. They all knew they had no choice but to go along with Arnault.

So, at ten o'clock when his Renault 25 with tinted windows drew up in front of 5 Boulevard de la Tour-Maubourg, Bernard Arnault was certain of taking office without a dissenting voice being heard. Dressed in a light grey Dior suit, he nonchalantly climbed the few steps that separated him from victory.

He quickly inspected those present. Only one was missing: Henry Racamier, the chairman of Louis Vuitton. This 'senile old fool' as he had started to call him was really beginning to get on Arnault's nerves. He had to get rid of him as soon as possible. The noise of the door opening interrupted his thoughts. With a smile on his face Henry Racamier made an entrance, apologizing profusely for being late. Bernard Arnault's reproving look delighted him. So much the better, he must have thought. This was merely the first step, he would fight to the end against this youngster whom he had sought out a year before in the hope of neutralizing the insufferably pretentious Chevalier. A mistake which had backfired on him. It might be a case of the biter bitten, but Racamier had no intention of letting himself be pushed around. This 76-year-old, unfailingly calm whatever the circumstances, was thirsting for revenge. From now on he would wake each morning vowing to topple Arnault. If he had one quality, it was perseverance.

The meeting began at 10.25. Alain Chevalier tendered his resignation as chairman of the group. The supervisory board took formal note of this and at the same time approved the dismissal of managing director Jean-Louis Masurel, who had been requested not to appear. A few polite words about them, and then the meeting got down to the main business of the day. Bernard Arnault had himself been unanimously elected chairman of the board of directors. The two outgoing members were replaced by the loyal Pierre Godé and Anthony Greener, Tennant's right-hand man.

The new chairman of LVMH, accompanied by Tennant, then moved towards the grand staircase for a photograph of the occasion. A couple of shots were enough to immortalize the Franco-British alliance which now controlled the world's leading luxury

goods company. With a last look at the building in which he was never to set foot again, Arnault left for the Avenue Hoche, the headquarters of Moët-Hennessy, the largest subsidiary in the group. It was to serve as the head office of LVMH. The guests gradually dispersed, avoiding with difficulty the journalists and photographers who surrounded the building. Their haggard faces made them look more like ex-convicts than the directors of the most prestigious company in France.

Alain Chevalier took a last look at the stark yet imposing room. It must have reminded him of the more farcical moments during the merger of Louis Vuitton and Moët-Hennessy. Contrary to what he had thought, Henry Racamier was not at all docile, far from it. He had always wanted to have his own way, right down to the choice of flowers for bouquets. Slowly he returned to his office on the first floor and sank down in the black Chesterfield, opposite the picture which his son had painted for him. He lit a cigarette and closed his eyes. He had lost the company which it had taken him almost twenty years to build up piece by piece. A manager without capital, snookered by two shareholding vice-chairmen, he had been reduced to the level of a simple negotiator. He had two options: to launch a frontal attack or to resign. He opted for the latter. The nightmare was over. He would not see either Henry Racamier or Bernard Arnault again. At the age of 58 he abandoned ship, with a bitter taste in his mouth.

At 11.30, a triumphant Bernard Arnault arrived at Moët-Hennessy. Flanked by Pierre Godé, he crossed the foyer cluttered with the personal files of the vanquished and went up to the sixth floor. He was anxious to personally check the text which announced his election. Two draft press releases had been prepared. The first, and longer, one paid homage to the previous management. The second simply announced the appointments without any frills.

The new chairman chose the second, took a felt-tipped pen and struck out the words of praise for the former managing director; Jean-Louis Masurel, heir of a large northern family, exasperated him. Reading through it again, Arnault added ‘elected unanimously’ alongside his name. He attached a great deal of importance to a unanimous vote, which meant there was no doubt about his position. To add insult to injury, he ‘forgot’ to give Henry Racamier his title of vice-chairman of the board of directors. It would need all the influence the chairman of Louis Vuitton could bring to bear in

order to have it inserted in the final text.

A few moments later, the news hit the main financial markets—Bernard Arnault was chairman of LVMH.

At noon, Alain de Pracomtal and Kilian Hennessy, senior figures in the company, joined Bernard Arnault. Together they descended three floors to inform the executives of Moët-Hennessy who had assembled in the auditorium. This room, like the others, was definitely not to the new chairman's taste. The atmosphere inside was as cold and gloomy as the weather outside. All eyes were fixed on the podium.

Bernard Arnault took his seat. He might look like a young cleric, but he was clearly not there to spread the good word. 'I am the boss. I will be here on Monday morning and I will be personally running the company. Carry on as you were. There will be no power vacuum.' There was no reaction. His audience had all had forebodings yet they had hoped for a last-minute reprieve. But nothing could stop Arnault. Chevalier was well and truly gone. The executives found it difficult to conceal their emotions. Some even shed a furtive tear.

Kilian Hennessy listened attentively. This 80-year-old man was perhaps the only one who had no fears for himself. He replied to the chairman: 'We note your undertaking to uphold the spirit, culture and methods of our companies which are over 100 years old, and to retain the people who built up our name.' These simple words eased the strained atmosphere. The audience applauded and, without another word, Bernard Arnault left the room.

As he got into his car he was sure he had won. His financial talents had enabled him to make his dreams come true. All that remained was for him to show that he could be as good a businessman. That would be simple, he thought. Nothing and no one else stood in his way, and yet Friday 13 January 1989 marked the beginning of the end for easy victories.

1

CHILD OF THE NORTH

Bernard Arnault, the son of a building contractor, was born on 5 March 1949 in Croix near Roubaix—a large wool-manufacturing town—in a brick-built house like all those in the north of France. From his room the young boy could hear the steps of Jules and Gamin, the horses used for carrying tiles and cement. He rode a tricycle with his sister, Dominique, who was a year younger, but he preferred the building sites where his grandfather took him for walks holding his hand. With his parents instilling the principles of moderation and honesty in him, he had a quiet and happy childhood in a protected, hard-working environment.

His father Jean may not have been a member of the great northern industrial families which formed the very closed aristocratic society of the region, but he was successful. The Ferret-Savinel building company had prospered. Life was comfortable, without being ostentatious.

Sometimes the child would stand in the hall gazing at the portrait of an ancestor, painted by a Russian, whom he apparently resembled. He took to dreaming about this family of soldiers and adventurers, so different from the family he knew. This particular ancestor, a colonel in the Napoleonic guard, had served in all the Emperor's campaigns, from Austerlitz to Waterloo, on foot. His son, raised at the La Flèche college without seeing his father until he entered the military college Saint-Cyr, went on to conquer Tahiti; at that time it took forty five days by sailing ship to reach Madagascar from Bordeaux.

But the young Bernard did not linger over the military exploits of his father's family. His own world revolved around school. Even today he can still remember the names of all his teachers and classmates from early primary school onward. He remembers the anguish of that day in junior school when he hadn't the slightest idea who Marco Polo was because he had not done his history and geography homework. Nevertheless he was an excellent pupil, who enjoyed mathematics and French but was also top of the class in all other subjects, including PE! And when his grandfather died of an

embolism the day before prize-giving, Bernard, who had just finished primary school, placed his diploma in the coffin.

That day the young boy crossed the street to his grandmother's house. He went to console her and stayed to live with her. This slight, strict-looking woman, often dressed in black, would be the person for whom Bernard Arnault felt the greatest affection. Talkative, impossible to catch out on the *départements, préfectures* and *subpréfectures* of France, she tirelessly recounted stories from the past to him: stories about the Auvergne, the region she came from, about the war, the occupation, about the beginnings of the company. The boy would listen attentively, a habit he was never to lose.

Following World War I his grandfather Savinel was demobilized in the north of France. Terrible battles had ravaged the region, everything had to be rebuilt. Starting with nothing except his wheelbarrow, Savinel teamed up with a Monsieur Ferret, who supplied the capital, and began to build on the ruins. A few years later, in 1926, he settled in Roubaix. At that time textiles were the wealth of the north and Marcel Boussac was at his peak. The Ferret-Savinel enterprise built a factory for the textile king who was to come and inaugurate it with great pomp and ceremony. All the workers were waiting for him, somewhat overawed at the idea of meeting this exceptional man. The private plane landed, Boussac alighted from it:

'Good day, gentlemen. How is the factory operating?' 'It is not operating yet, it has only just been completed.'

No longer interested, Marcel Boussac left without looking at anything, to the profound disappointment of all concerned.

Reared on his grandmother's stories, the studious young Bernard Arnault did not play like other children. Of course, when the Queen of England came to Roubaix he climbed on to the roof of a warehouse to watch her go by. Like all children of his age he had an electric train set, but once the tracks had been assembled he lost interest. He did not like playing, and looked a little condescendingly on the unruly and worldly-wise friends of his sister. He could not understand it. 'She was a year younger but two or three classes behind,' he said. 'Luckily she has caught up since then...' Dominique, a slim young brunette with an angular face, now married to a northerner, is still his confidante and best friend, as she was in their childhood. An auctioneer at Béthune and a

specialist in Art Nouveau glass (Daum and Gallet), she has just bought a practice at Drouot in Paris. She keeps him informed about interesting sales and advises him on purchasing contemporary paintings.

What Bernard liked as a child was the quiet, studious life he led at his grandmother's. In the evenings he would cross the street to say goodnight to his parents and go to bed early on his return. On Wednesdays he watched television and on Sundays he had dinner with the family. He loved work and music.

At the age of twelve he wanted a grand piano, which had to be hoisted in through the first-floor window. At fifteen, he could play the twenty-four Chopin *études* perfectly (nowadays he prefers Schumann) which did not prevent him from passing his *baccalauréat* with good marks.

As a first-year student in the preparatory classes for the Grandes Ecoles, while his friends from the preparatory class at the Lycee Faidherbe were living it up in Lille, Bernard worked: 'You have to be specially gifted or you have to work hard,' he said during a television broadcast. 'I was not gifted enough, I had to work, so I worked'.[1] This is only half true. Certainly he worked and he enjoyed doing so, but he was also exceptionally talented.

'You couldn't compete with him,' said one of those closest to him, 'it wasn't worth it. He was quicker to grasp things, he went at a faster pace. You either detested him or found him charming. A lot of people were jealous of his abilities.'

Admitted to the Ecole des Mines in Paris at the age of nineteen, he was also eligible for the Ecole Polytechnique. But he failed because of PE. Training for the high jump, he had stretched a rope between two trees in the garden. He fell badly and broke an arm, making it impossible to sit the exams while in plaster. The 'X', as the Ecole Polytechnique is also known, is a military college and so he had to be able to handle firearms, march and go on parade. Physical education disqualified him.

The youngster tried again and the following year got what he wanted—a place at the 'X'. The college's two industrial placements gave him the impression he was wasting his time. The first, an industrial training course, took him to SNCF rail depots where he pushed crates. He got nothing out of this. Such experiences are supposed to result in a knowledge of working life which would later make for better man management. Bernard Arnault did not see it

that way. The gap between the hard-working intellectual and the railwaymen packers was too great. ‘All I learned was that if you’re sending something fragile by post then you have to wrap it very well since it will not be handled with care,’ he joked.

The second course was with McKinsey, the management consultants. For most new graduates, to work for a firm of consultants is to be on the fast track; they see it as a chance to watch, learn and get their careers off to a quicker start than their contemporaries. Bernard Arnault did not see any of this. What he did see was what an outsider could bring to a company, and he was not convinced. He would remain reticent about the efficiency of consultants. ‘Often they just apply formulas,’ he noted. Later he would only call them in when confronted with an exceptional situation at Boussac.

Indeed the very idea of a training course seemed frustrating to him. ‘You watch but you don’t do anything,’ he said, ‘and what I am interested in is doing.’ Bernard Arnault was twenty-two and in a hurry. He knew what he wanted—to join the family firm. He had never really considered anything else since his childhood. ‘I always wanted to manage a company, I never wanted to do anything else,’ he confided to his friends who went into heavy industry or became senior civil servants. His father, a slightly gruff provincial business manager, who looked you straight in the eye and was a man of his word, had planned to send Bernard to England and Germany to study for a time before taking him on. But he left the Ecole Polytechnique six months earlier than expected. He joined the firm ‘while I’m waiting’, and never left.

A few months later he married Anne Dewavrin in the large church in Roubaix. It was a sensible marriage. Bernard Arnault had known the tall, slim, blonde young woman, distantly related to one of the great northern families, for a long time. In these very closed circles, where one’s social status is dictated by one’s field of business—wool being best, followed by spinning, textiles and only then the other industries—Anne Dewavrin was descended from a long tradition of textile manufacturing. Her numerous brothers and sisters were all in manufacturing and a factory was the traditional dowry in the family. Anne was fascinated by the young, exceptionally bright, Ecole Polytechnique student with whom she went sailing in summer in the North Sea off the Belgian coast.

At Ferret-Savinel nobody realized that the son of the owner was

married. He did not wear a wedding ring and kept his own counsel. The day his daughter Delphine was born not even his own secretary knew about it. Extreme discretion or another sign that there is only one thing that counts—work? In any event, at the age of twenty-four Bernard Arnault's future was apparently mapped out as an important man in the province. But the young man had other plans.

The conference room at Ferret-Savinel—small, cold, school chairs round a Formica table—was an extremely gloomy place. Bernard Arnault rarely received visitors in his office, for he did not like people intruding on his privacy. His visitor, Michel Lefebvre, young like himself but even taller, was the manager of UFFI, a subsidiary of Crédit Lyonnais. He had come to talk about a joint promotion. The meeting lasted barely ten minutes and the promoter, a naturally talkative and warm person, soon found himself on the doorstep, dumbfounded. Two days later Bernard Arnault called him: 'Let's meet again.' Michel Lefebvre refused. 'You must be joking. It takes forty minutes to do the round trip from Lille to Roubaix. It's not worth it just for a ten minute meeting.' He came anyway, stayed an hour and a quarter and declared: 'Enough is enough, now I'm late.' Bernard Arnault laughed. The first outburst of the hysterical laughter which he was to have in comical situations.

Michel Lefebvre, this sporting and jovial fellow, always moving about, was to work with him before joining the company and becoming one of the people closest to him, both as a friend and adviser who added a touch of humanity to social relationships. Today, as chairman of the George V group (the new corporate name of Arnault's development subsidiary), he is very definitely one of the people who know the boss best, advising him on his choice of personnel. Not one executive working in the Arnault entourage has been recruited without the advice of Michel Lefebvre, whose task it is to decide if they will get along.

Other friends from that time, Jean Géosits and, above all, Pierre Godé, were also to become his closest lieutenants.

Jean Géosits, a small, slightly balding man with both feet planted firmly on the ground, is the loyal servant. Having joined Ferret-Savinel at the age of fifteen as an assistant accountant, this country boy with a Pas-de-Calais accent became adviser first to the grandfather, then the father and finally the son. Gifted with rare intelligence, flair and intuition, he is now an incomparable tax

expert who enjoys the total confidence of the family (he looks after their personal affairs and does all their tax returns). He has never left Bernard Arnault, particularly at difficult moments. Later he would be seen sitting at his side for hours in the court room.

Pierre Godé is Arnault's *alter ego.* A lawyer three years Arnault's senior, he stoops slightly to conceal his height, as Arnault does. The same reserved, even timid, attitude contrasts with a determined and piercing look. 'I can be very unpleasant,' he has himself admitted. It was Jean Arnault who discovered him in a legal practice in Lille. The company, which had just won a contract to build 15,000 houses, was looking for a lawyer.

Initially, relations between Bernard Arnault and Pierre Godé were distant and purely professional. People had to prove themselves before they won Arnault's confidence. They had to be good, and know how to stand up to him when they were sure of their case. But once he has adopted someone he will not pardon anyone who betrays that person. Gradually, the lawyer became part of Arnault's inner circle of close colleagues. Arnault appreciated his faultless legal operations, his ability to detect and exploit the smallest weakness in his opponents, his calmness and determination. For a while he let him go to Nice: Godé had just sat his *agrégation* (teaching exam) and he wanted some time to think, so he went off to teach in the South of France. But when Bernard Arnault recalled him he came back and moved into the adjoining office, first at Dior, then at LVMH and now at Christian Lacroix. Every morning at 7.45 they would take stock of the day. In a crisis, they were in constant communication. 'He's the only person Bernard Arnault addresses using the familiar *tu* form,' people say. That is not true. Bernard Arnault addresses no one as *tu* except his family and a few college friends, including Maurice Roger, the chairman of Parfums Dior. With perfect manners, extremely correct and polite he hates intimacy. He does not have friends, only loyal followers.

A fourth person was to enter the closed circle shortly afterwards: Claude Gros, the head of Cheverny, a subsidiary of the state-owned Industrial Development Institute (IDI) in the United States. Small, brown-haired, with a shrewd eye, an expert on mergers and acquisitions with a passion for astute financial deals, Claude Gros for a long time advised Arnault from the sidelines.

When Bernard Arnault began at Ferret-Savinel, the company was run with a firm hand by his father Jean, a man respected by his workers. 'A building site is not a factory,' he used to say. 'You have to pack a good punch, and be able to fight.' The business prospered, and good relations with senator Victor Provo, the mayor of Roubaix and Pierre Mauroy's predecessor, meant that the company built council housing, roads and sewers and obtained construction permits for bigger projects. The company already had two distinct areas of activity—public housing and private homes.

Bernard visited the sites, talked to the subcontractors, and learned his trade as a contractor. Very quickly he became the in-house gadfly, questioning everything, demanding, sometimes difficult to follow, and convinced that the firm had to expand.

Every day he had new ideas. In 1977 he went to Canada to set up a subsidiary to build private houses, but then René Lévêque came to power in Quebec, the English-speakers left Montreal for Toronto, and orders were few and far between. Besides, French-style houses are ill suited to a country where everything is covered in snow during the winter. The experiment was abandoned, although two vestiges of it remain: the name Férinel (a contraction of Ferret-Savinel), which was thought up for the occasion, and Bernard Arnault's conviction that he had to diversify the company. But how?

Claude Gros put him on the right track when he said: 'You don't need diversification. You already have diversification in property development.' Bernard Arnault understood what Gros meant. In secret, he negotiated the transfer of Ferret-Savinel's construction activity to the Rothschild-owned SNC (Société Nationale de Construction), which was to merge two months later with Quillery (a medium-sized firm) before being taken over by SAE, a leading French construction company. He then had to have the deal approved by his father.

Jean Arnault's feelings for this disruptive son of his, whom he often had to rein in, were a mixture of affection and anxiety. He had not the slightest intention of selling. However, he let himself be convinced by the size of the contract—40 million francs. For the small provincial business that was a great deal of money. He stepped aside and gave his son *carte blanche.* This was to be the start of the family's fortunes.

Bernard Arnault became head of Ferret-Savinel that day and

took on Michel Lefebvre to set up a development subsidiary, Férinel. In Lefebvre's words, the start was 'heroic and funny'. He took a two-roomed office on the Boulevard Raspail where he answered the door, answered the telephone and negotiated the first site in Languedoc. This apparent amateurishness lost them contracts, but one show house was built at Gruissan that first summer, to be followed by 100 in 1979 and 1,000 in 1980. Within five years, Férinel had become the leading French property developer for private houses, rivalling Ribourel and Merlin. Success came with the decision to sell holiday homes, a good knowledge of building, and careful use of marketing and advertising techniques. The slogan 'Férinel by the sea and in the mountains' was everywhere. It was Bernard Arnault's idea to transfer the office to the Champs-Elysées (where it still is today). 'Férinel Champs-Elysées' sounded better!

Success also came through the demands made by the owner on his employees. One day he was driving from Lille to Paris with one of his executives, who complained he had too much work and could not do what was asked of him. He thought he had convinced Arnault. But when they arrived, Arnault said to him, as if the conversation had not taken place, 'You do agree to do what we talked about, don't you?' What could he say? The manager, nonplussed, did the impossible. Another day, Arnault had the file for a property deal on Michel Lefebvre's desk at midday. At 2 pm he called and asked him how much he had sold. Humour? Impatience? Who knows?

One thing is certain: Férinel's success was not enough for Bernard Arnault. Beneath his civilized appearance there lurked the spirit of an adventurer; he wanted more and was feeling his way. He bought the magazine *Le Chasseur français* then *Crocus,* a small chain of restaurants which he subsequently sold.

When the Socialist Party came to power in 1981, Bernard Arnault packed his bags. He had a good team in France, the company could continue without him. He left 'to look for investment opportunities elsewhere'. He headed for a country which he had loved since criss-crossing it during holidays in the 1970s: the United States.

He looked for a house close to a good school. His two children Delphine and Antoine, had to be excellent pupils, just as their father had been before them. He paid a great deal of attention to this,

even though he was reluctant to show them his school reports, all of which he had kept, for fear of giving them a complex. And so the family settled in New Rochelle near Larchmont, the French residential suburb of New York, in a large Mediterranean-style house by the Atlantic. Jogging in the mornings he would pass his next-door neighbour. It was quite a surprise when he learned from the front page of the *Wall Street Journal* that this was none other than John Kluge, the multi-millionaire who had just made a takeover bid for the communications conglomerate Metromedia. Kluge embodied everything Bernard Arnault admired: a nationally successful businessman who had also made it in the United States. His audacity in business and his display of wealth combined with a certain simplicity in his private life gave the young Frenchman food for thought. Kluge, who was to remain a mere acquaintance, certainly served as a role model.

Was the American experiment a success or a failure? Opinion is divided. The first deal, the development of a nineteen-storey tower block in Miami, Princess Tower, went well. 'I looked very hard for flaws, but I couldn't find any,' said a banker from the Barnett Bank arranging the initial loan of fifteen million dollars. Less prestigious projects followed: Banyon Club, a block of rental flats (a difficult project, since the insurance company financing it went bankrupt during construction), and two other housing developments, all in Florida.

Did Bernard Arnault lose money like other French companies—such as Maisons familiales and Robert de Balkany—which had loss-making investments at the same time? He claims he did not. Princess made three million dollars profit and the other projects broke even. However, he was to admit: 'It's tough in the United States if you haven't moved in the right circles from the start.'[2]

In fact, he wanted to go far. He had an iron will. At a laboriously won friendly tennis match he said, 'I may lose once, but I never lose twice.' (He had lost the first set very badly, made up the second with difficulty, and won the third.)

So, when prospects in the United States turned out not to be as bright as Arnault had thought—Férinel Inc. did not carry much weight in Florida—he called Pierre Godé. 'I've found out that you need a work method in the United States.' Back in Paris, the economic climate had improved, the socialists had 'opened their eyes', and after two years of the Mauroy government the left had

become aware of the economic facts of life. It was time to return to France and buy a company. 'Find me one,' he ordered Pierre Godé.

Which one did he want? He hadn't the slightest idea. However, when he was in Bloomingdale's buying a blue, red-trimmed dressing gown and a suit, he chose Dior, thinking, 'There isn't a better name. In the United States the "president" of Dior is better known than the President of France.' Was this a premonition?

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1 Les Gens du Nord, a programme broadcast by FR3 on 15 November 1988.

2 Les Gens du Nord, broadcast by FR3 on 15 November 1988.

2

A BURNING AMBITION

On a hot July day in 1984, Pierre Godé left the offices of the trustee handling the Boussac bankruptcy. Without taking the time to return to his own office, he hurried to a telephone box on the Boulevard Saint-Germain and called Bernard Arnault who he knew would be in the north of France. He had already spoken to him about various possible deals (syringe factories, toy companies, even Les 3 Suisses—a mail-order firm), for the most part companies in difficulty. Bankruptcies were rife at the time and Godé felt that Férinel had a team capable of putting a struggling company back on its feet, but what he suggested that day was positively mind-boggling—Boussac, no less!

At the other end of the line Bernard Arnault paused: 'You're joking, Pierre!'

After Manufrance (the armament company), Boussac was the largest industrial bankruptcy in France. The mixture was explosive: an ailing industry, textiles; shady businessmen in the form of the Willot brothers; public authorities anxious to rid themselves of a business that was losing them a hundred million francs a month (two billion francs had already been swallowed up, without counting the debts that had been written off) and potential rescuers of varying degrees of reliability: Bernard Tapie (a self-made businessman), Christian Derveloy, the chairman of Prouvost (a textile company), Julien Charlier, the owner of DMC (a spinning-mill company), and Maurice Bidermann (a leading figure in the textile industry).

It had all begun in 1978 with the collapse of the Boussac empire. The man who had invented pyjamas and discovered a young fashion designer, Christian Dior, and who was one of the six wealthiest men in the country was unwilling to modernize his factories, far less lay off his workers. He had to sell his stud farms, his chateau, his newspapers *(L'Aurore* and *Paris Turf)* and Parfums Dior. All that remained of the depleted empire were assets in the declining textile industry and one jewel: Christian Dior. Debts were heavy, but there was a small collection of valuable real estate—the

chateau of Mivoisin and its 5,000 hectares of land, villas at Deauville and Neuilly, land in the centre of Amiens. The matter was in the hands of the IDI (Institute for Industrial Development).

Maurice Bidermann was in the running to take over this Ali Baba's cave. Confident, he thought he had the backing of the secretary general of the presidency, François Polge de Combret, a friend of his sister Régine, the nightclub queen. This support from the Elysée (the President's offices) was not enough. In the rue de Rivoli (the Ministry of Finance), René Monory tipped the scales in favour of the Willot brothers. They acquired the business for 700 million francs payable, interest free, over a fifteen-year period.

Jean-Pierre, Antoine, Bernard and Régis Willot were compulsive buyers. Although they had founded Peaudouce, the nappy company, their main activity was taking over companies in difficulty: the Agache linen mills, and the big department stores Conforama, Bon Marché and Belle Jardinière. In 1978 their group had assets of over six billion francs. 'Like hamsters, those small rodents that go on accumulating grain and never let it go, the Willots accumulated factories, commercial premises, apartment blocks, land, forests, car parks, and rarely parted with them,' wrote Patrick Lamm.[1] If they were to acquire Boussac it was probably because their fixed assets served as security.

However, the Willots were soon on the brink of disaster. In the north of France they were hated by all the great families whose factories they had gradually bought up. Nobody forgave them for that, and everybody was waiting for their downfall. It was an ill-judged investment in a chain of American stores, Korvette, which was to precipitate it. The Willots lost a great deal of money and could no longer meet their financial commitments. The chairman of the IDI, Dominique de la Martinière, got wind of the affair and alerted the Elysée. At the beginning of July 1981, the investment bank CCF refused to honour a Willot cheque for 270,000 francs, and the brothers filed for bankruptcy. The matter fell into the lap of the new socialist government, which passed it back to the IDI. Debts amounted to 3½ billion francs, and 20,000 jobs were threatened in the stronghold of Prime Minister Pierre Mauroy.

In the National Assembly the Minister for Industry Pierre Dreyfus thundered: 'We will make the Willots give back their ill-gotten gains.' That historic phrase was to light the powder keg. From then on, things went from bad to worse. Alain Boublil, then

an industrial adviser at the Elysée, was a Dior *aficionado*. He used his influence to pull a few strings. He had his friend Rene Mayer appointed, one of those ‘prospective owners’ who liked to dabble in business. The situation got worse. When, in July 1984, the matter was transferred from the Elysée to the Matignon (the prime minister’s office), an exasperated Laurent Fabius said to the directors of the IDI: ‘I don’t want to hear any more about this affair. You have six months.’ There was just one condition—the buyer, whoever he was, would have to take the lot.

Many people were in the running, all fairly seriously. Pierre Bergé, the chairman of Yves Saint-Laurent, wanted to amalgamate his fashion house with the most prestigious of them all. Perhaps the reason he detests Bernard Arnault so much today is that the owner of Dior succeeded where he did not.

Christian Derveloy was also a candidate; his plan was to merge Boussac with Prouvost. Julien Charlier, the chairman of DMC, who had built up his company in spectacular fashion wanted to prevent Boussac falling into the hands of Prouvost, his competitor. Bernard Tapie for his part saw the doomed company as a chance to pull off a coup, nothing more.

The most serious contender, however, was Maurice Bidermann. Boussac had slipped from his grasp six years before and he was determined it would not do so again. He felt that success would be his, given his contacts—he had friends everywhere, from the IDI to the staff of various cabinet ministers—and his reputation as a textile magnate.

Nobody in Paris remembered the head of Férinel who had been in exile for three years. Since Pierre Godé’s telephone call, however, Bernard Arnault had become the most serious would-be buyer. He saw problem cases as a challenge. After all, companies that are in ruins hold the greatest surprises and bring the greatest profits if they can be pulled round. All you have to do is delve into them deeper than anyone else and work on them without leaving anything to chance.

On 15 July 1984 at 8.30 am, Bernard Arnault went to Croix to see Jean-Pierre Willot, a fellow northerner whom he knew vaguely from the salerooms (Willot, like himself, bought paintings). The atmosphere was depressing. There were seals on the paintings on the walls. ‘A good climate for starting negotiations,’ Arnault must

have thought. The unexpected arrival of another brother, Antoine, ruffled him. Why this intrusion? The meeting was supposed to be private. Nevertheless he put forward his proposal: the takeover of Dior. Out of the question replied the Willots. It must be all or nothing.

No matter—all it would be. When he returned to Férinel there was great consternation. 'You are quite mad,' his father told him. As for Michel Lefebvre, he advised Arnault to take the first plane back to the United States. But the young man listened to no one.

A second meeting took place at the end of July at Mandelieu airport, as the Willots were on holiday in Cannes and Bernard Arnault in Saint-Tropez. A confident Arnault, accompanied by Pierre Godé, suggested to the four brothers that he should buy their shares. The two were well and truly rebuffed. The Willots wanted Arnault as a fifth brother, nothing more. Things were so unpleasant that the owner of Férinel and his lawyer did not dare take out the draft agreement they had already prepared. However, it took more than this to discourage a man like Bernard Arnault. Rather, it made him more determined. He knew the Willots would end up giving in since they had a weak point: Boussac was in receivership. If the commercial tribunal decided that assets should be liquidated, their shares would be worthless and they would lose everything. He, Bernard Arnault, was the only person who could prevent this, by signing an agreement with them.

The Willots arrogantly stuck to their guns. Arnault returned to the fray, convinced that as time passed the brothers' position would become increasingly untenable. Sure of himself, he decided to leave the United States for good and entrusted his wife with the task of closing the house, which would be sold to his neighbour, the multi-millionaire John Kluge. He dropped everything in the United States. Jean Arnault was shocked. This son of his was totally unpredictable, and his eccentric ideas would cost him dear one day. To deal with the most pressing matters, Michel Lefebvre, one of the Férinel bosses, was given the task of taking over the American subsidiary. Not for long though, for he very soon sold it to Férinel's local manager, Jacques Brion.

Returning from New York in Concorde at the end of the summer of 1984, Bernard Arnault was determined. What did it matter what people said about him ('What will they think of me?' he had confided, still hesitant, to Claude Gros). He wanted Boussac and he

was going to get it. He added a final point to his plan of attack: he would increase the capital after signing an agreement with the creditors. First, however, he had to get the Willots' agreement. Things were progressing on that front and he would apply himself to the task of obtaining the support of the public authorities who would choose the buyer. For financial support he approached Lazard's on the advice of François Polge de Combret. The fifty-year-old former secretary general of the Elysée, who knew the Boussac business well, had joined Lazard's the day after the election of François Mitterrand, and had been posted to New York to gain experience. During the last few months he had not been sparing in his advice to Bernard Arnault.

'I can solve the Boussac problem for two reasons: I'm the only person who can get an agreement from the Willots, and I'm the only one who has worked on the file 24 hours a day.'

'Come and see me again when you've got the agreement.' Putting down the receiver, Edouard Silvy, the assistant director general of the IDI, did not think that he would see his caller very soon. What chance did this nice young chap have of beating off the biggest sharks in Paris? Furthermore, nobody would pay any attention to the newcomer: 'They'll never give Boussac to a thirty-six-year-old property developer living in the United States,' trumpeted Maurice Bidermann, sure of himself.

Everyone underestimated Arnault. The first part of the plan was within an ace of succeeding. On Saturday 9 October in the imposing panelled library of SFFAW (Société Foncière et Financière Agache Willot), an old building opposite Lille station, the Willots signed a provisional agreement, accepting in principle to sell their shares to Bernard Arnault. However, he was not out of the woods yet. The brothers went back on their promises. Arnault remained inflexible. He wanted control and he wanted shares. There was no question of his becoming the Willots' partner. He was well aware that his credibility in the eyes of the authorities depended on his remaining a free agent with no ties to the Willots.

Everyone discouraged him. When Pierre Godé tried to obtain information from the Louis Dreyfus bank, one of those most familiar with the Boussac business, Alain Clarou dissuaded him: 'I know a lot about the whole business. For a while there was money to be made by speculating in Boussac shares, but that's all over now. Don't get involved.'

It was the same story at the CCF where M. Langagne said coldly: ‘Boussac files a petition for bankruptcy every three years. You will fare no better than your predecessors. You won’t last three years.’ A bet was even placed on it.

Far from discouraging the two men, this consensus of opinion acted as a stimulus. It was Pierre Godé who came up with a way to tie the Willots’ hands: a ‘consumption loan’, whereby shares can be used without buying them. But the brothers were reluctant and wily.

Meetings became more and more frequent. Arnault and Godé courted, coaxed and even bullied by turns for, as the lawyer said, ‘negotiation is a battle’. By 13 November they had reached an impasse, negotiations were broken off. However, the following day the situation changed again for one essential reason: the tribunal was to announce liquidation on 16 November. The Willots had their back against the wall. On 14 November they signed.

The agreement had a certain impeccable logic. Bernard Arnault bought only 20 per cent of the shares held by the four brothers, i.e., 105,000 (6 per cent of the capital) out of a total of 1.1 million for a unit price of 250 francs payable over seven years, i.e., by 1991. In plain English, the deal was not going to cost him anything in the short term. The Willot brothers still held 80 per cent of what had belonged to them. This meant that they could sell later, when share prices rose. But they effectively loaned those shares to Bernard Arnault, who could use the voting rights attached to them. In overall control of the business, Arnault could therefore negotiate an agreement with Boussac’s creditors. Only then would he increase the capital by 400 million francs, which would enable him truly to take over the reins.

As soon as the agreement had been ratified, Arnault and Godé went to the Ministry of Justice, without even making an appointment. Time was short, and they had to ensure that the tribunal did not make its expected decision the next day but one. They entered the office of Pierre Lyon-Caen, adviser to the Minister of Justice, showed the agreement and order of movement for the securities obtained, but were not immediately successful in making their case.

It all seemed too good to be true. There had to be a flaw in the arrangement somewhere. The Willots were reputed to be excellent lawyers and would make short shrift of these two young men. That

was to underestimate Pierre Godé. His talent was formidable.

A doubtful Pierre Lyon-Caen suspended the liquidation and advised the two men to do the rounds of the ministries to convince them. Methodically, the two men from the provinces, in blazers, with their briefcases under their arms, toured the Ministry of Industry, the Ministry of Finance, the Ministry of Social Affairs, the Matignon... Tirelessly they explained and argued, trying to persuade the various advisers that they were serious and that their plan was feasible.

In the rue Saint-Honoré, in his office above the Louvre des Antiquaires, the assistant director of the Treasury, Robert Léon, an Algerian-born graduate of the Ecole Nationale d'Administration, was immediately struck by the determination of the two men. 'The only ones willing to go all the way,' he thought. That was not enough, however; there had to be other candidates, there had to be real competition, and takeover terms had to be negotiated that would minimize government losses. Nevertheless, he was to provide effective support in the Arnault candidacy.

Alain Boublil at the Elysée and Hélène Ploix at the Matignon shared that view. While they were convinced of Arnault's determination, they had reservations about how able an industrialist he was and, in particular, how solid his financial backing was. Here, too, Bernard Arnault surprised everybody. He would gain the support of some of the biggest names in French finance, starting with Lazard's, the leading merchant bank in France. François Polge de Combret introduced him to Michel David-Weill, the top man at the bank in the Boulevard Haussmann, who in turn advised him to contact Antoine Bernheim, the only person who could manage a bankruptcy of this magnitude.

The chemistry was good. Bernheim was a visionary, a huge man with a huge appetite (at the fashionable Bristol restaurant where he is a regular customer he took several helpings of soufflé potatoes, and from his usual table at the back, surveyed his fellow diners to see who was eating with whom). He knew full well that big business would not always remain in the hands of the barons. The world was changing. Lazard's, referred to by some as the Under Ministry of Finance because it presides over *rapprochements,* mergers and acquisitions on the Paris market, had to prepare for the future. It could not afford to miss any high-fliers that might come its way, and perhaps Bernard Arnault would be one of them. It was

worth a gamble.

However, Antoine Bernheim was no philanthropist. ‘Put in what you can,’ he said to Arnault, ’I’ll match it and I’m sure I can find the rest.’

Arnault et Associés (the family holding company) put up 90 million francs, a particularly significant amount since it involved the bulk of the family fortune in a high-risk affair. Lazard’s also put in 90 million and Antoine Bernheim called his colleague Nicholas Clive-Worms, the chairman of M.M. Worms et Cie, suggesting that he too participate: ‘It’s now or never for Worms et Cie to distinguish itself from the Banque Worms [controlled by the UAP since nationalization],’ he told Worms. The Worms heir was not really surprised. Edouard Silvy, who was going to leave the IDI in order to join him, wanted a deal for his new company. He had already spoken to Worms about Bernard Arnault and so Nicholas Clive-Worms let himself be convinced. He set up an investment company called Financière Truffaut which would also put up 90 million francs. A fourth partner had still to be found. This was to be a conglomerate comprising Sofipa (Elf), OFP (Total), the US bank Charterhouse and a consortium of Syrian investors. The total sum (four times 90 million francs) represented 50.1 per cent of the capital and would only be paid after a composition agreement was signed with the creditors—an astute move to minimize the risks for each party.

In order to gain industrial credibility, Bernard Arnault called on Julien Charlier, the chairman of DMC and once his rival for Boussac. They met at the IDI and Arnault offered Charlier a two-year contract to manage the Boussac textile factories and first refusal when operations were sold. The head of DMC had had enough of Boussac using public money to slash prices; moreover, he did not like his main adversary, Maurice Bidermann. He agreed, and Arnault had another ace up his sleeve.

By Friday 14 December, two candidates remained in the running: Bidermann and his associate George Jollès, and Bernard Arnault. The opposing parties each put their case to the Ministry of Industry. The following morning, the candidates were scrutinized for the final time, this time by the unions of the Compagnie Boussac Saint-Frères (CBSF). ‘Only one of the two really seemed to want Boussac,’ said one delegate, ‘and that was Bernard Arnault.’ On the Sunday evening at 8 pm, at a last interministerial committee

meeting, Laurent Fabius ruled in favour of the owner of Férinel for one principal reason: only he could prevent legal trouble with the Willots. At 10 pm Hélène Ploix called the parties concerned and summoned them to finalize the decision the following day at 10 am.

On Monday morning, the meeting was postponed. Why this hitch? Bernard Arnault and Pierre Godé were waiting, irritated, at Jean Arnault's Paris flat. At 12.30, the Matignon called them to say they were waiting for the green light from the Elysée. But the President of the Republic had made his decision. He had confirmed his Prime Minister's choice: Boussac was to return to the private sector and its owner was to be Bernard Arnault.

In the contract, the state required Bernard Arnault to take over CBSF[2] as well as SFFAW. In return, Arnault wanted the government to wipe the slate clean. Arnault made two financial commitments. First, he would find a group of investors to underwrite an increase in SFFAW capital and, second, he agreed to the condition that if Boussac prospered again, it would repay 300 million francs between 1990 and 2005.

With the contract signed, Arnault entered into discussions with private creditors. Whether he was particularly talented or was capitalizing on Boussac's total collapse, the fact of the matter is that he obtained agreement on very favourable terms. The preferred creditors (approximately one-third of the total) agreed to 100 per cent repayment over three years; the others reduced their claims by 40 per cent and would be paid over eight years.

At the beginning of 1985 Bernard Arnault took stock. He had come a long way since his visit to the Willot brothers six months earlier. He had got what he wanted—the Dior fashion house, the jewel in the crown—and also a distribution group (Conforama, Belle Jardinière and Bon Marché) with valuable real-estate assets. He had the added bonus of a packaging plant and the Peaudouce nappy company. The other side of the coin however was that he also had a moribund textile company.

Expectations were high in all parts of the former Boussac empire. Plant and equipment had deteriorated, business prospects had never been worse. In the workshops, 600 managers and some 20,000 workers feared for their jobs. Arnault spent a year reviewing the situation with Charlier and he invested more than he had planned (875 million francs as opposed to 670 million) in order to

get a better price for modern factories with a leaner workforce. In six years, thirty factories were sold; 8,000 people were made redundant but 7,000 jobs were saved. Had Bernard Arnault committed himself to preserving jobs?

He says he had not. The three-year industrial plan drawn up before the takeover spoke of ‘keeping the company and the majority of jobs in existence’. The expression was vague. In any case Arnault did not regard it as binding in any way. How could it have been otherwise? No serious businessman taking over an ailing company would commit himself so blindly.

He was most certainly telling the truth. At the time the authorities were only too happy to find a buyer. They had been more concerned about putting an end to the scandal and the constant drain on public funds than about saving jobs. Nevertheless, Arnault was criticized for being in too much of a hurry to liquidate the textile operations and all eyes turned on him once again when, in February 1990, the Luxembourg court criticized the entire operation and ordered the French government to recover 338.56 million francs, i.e., one-third of the assistance improperly paid to the Compagnie Boussac Saint-Frères between 1982 and 1984.

At all events, textiles were not his main concern. Dior was much more attractive.

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1 *Enquête sur l’affaire Boussac,* Paris, Ed. Laffont.

2 CBSF, owned by the state through the IDI, managed SFFAW operations. In other words, SFFAW had entrusted the management of the shares it owned to CBSF which had notched up more than a billion francs in government subsidies between 1982 and 1984.

3 THE TASTE FOR LUXURY: DIOR AND LACROIX

The pageboy at Maxim's—the most famous Parisian restaurant—opened the doors of the gleaming cars, and the most beautiful women in Paris emerged, including Princess Caroline and Princess Stephanie of Monaco. On 20 January 1985, a grand celebration dinner was held at the Rue Royale to mark the appearance of Dior's summer collection. At the top table, the new owner, Bernard Arnault, sat next to Princess Caroline. The chairman of Dior, Paul Audrain, was next to Princess Stephanie, while the designer Marc Bohan sat alongside Madame Pompidou.

Flashbulbs popped as the photographers focused their attention on Stephanie—and her neighbour. Everyone at the time was humming the chorus of her record *Comme un Ouragan.* 'I'll pay for this,' Paul Audrain must have thought. His anxiety was not unfounded.

A few days later Arnault came into his office. Audrain rose and offered Arnault his seat. 'I think that is rather a good idea,' replied Bernard Arnault, sitting down. He asked Audrain to call a board meeting within eight days in order to announce his resignation as chairman and managing director.

Did the incident at Maxim's have anything to do with it? Certainly not. Bernard Arnault had understood that Dior was the jewel in the crown of the group. Dior was to be the starting point for his strategy. He had to make that plain and install himself physically in the chairman's seat, take over his furniture, his driver and his secretary.

'It seems a long time since Bernard Arnault first arrived with his not very elegant raincoat, his not very fashionable shoes and his spiral notebook. But it hasn't even been two months,' thought Paul Audrain, wandering through the corridors.

The ambitions of the new boss soon became apparent but no one paid attention. To the managers who sometimes mentioned a possible *rapprochement* with Parfums Dior he said: 'Parfums won't

buy us, we'll buy them.' Everyone thought it was a joke. What a mistake! Bernard Arnault was in the seat reserved for the chairman of Dior Couture and he already got on well with Maurice Roger of Parfums Dior, a former student of the Ecole Polytechnique like himself. He knew that one day he would be master there too. But for the time being he was concerned with Dior. A famous name, but innumerable difficulties: too many licences, not enough boutiques, a ready-to-wear range that had been a failure, a troubled atmosphere.

The first of the great fashion houses to adopt a system of licences (Christian Dior went to the United States to launch a first stocking licence as early as 1947), the company had benefited substantially from the system. Whenever there was a need for money, particularly since the end of the Boussac era, new licences were signed. This excellent source of revenue meant that on his arrival Arnault found the accounts to be in reasonable shape (32.6 million francs profit in 1985). However, the system had been abused and the situation was giving cause for concern: it was impossible to manage the patchwork of 260 licences worldwide which detracted considerably from the image that a company like Dior should project. Moreover, quality was sometimes lacking: bags sold in the United States were made in the Far East where the leather was not worthy of the Dior label. Everything had to be reviewed and Arnault decided on the strategy to follow: contracts would be renegotiated and products would have to match the models and specifications adopted by Dior at their headquarters in the rue François Ier.

Equally serious, the well of creativity was drying up. Marc Bohan, Marcel Boussac's protégé, a lively and very hardworking man, had always been a great designer, but he had not succeeded with his ready-to-wear range. Ready-to-wear, which had been the bread and butter of the great fashion designers since the 1970s, did not exist at Dior. French women could no longer afford to buy originals and only a few internationally famous and rich women still wore *haute couture*. Everything had been tried to launch a ready-to-wear range: a collection by Bohan, another by an outside designer, a third by someone in-house. They all failed. American buyers came to the collections but left again without ordering. What would Arnault decide to do? Give Marc Bohan a new project or look for another stylist? He began by placing his trust in Bohan and watched.

Dior had to embody ‘everything that is most beautiful in the world’. Bernard Arnault was convinced of that and so he set to work on a symbol: the building in the Avenue Montaigne. It was to be entirely refitted and modernized but at the same time preserve the spirit of Christian Dior. On the fourth floor, the offices of the chairman and his closest colleagues looked out on a rotunda, the small room was adorned with a portrait of Christian Dior and a few white flowers, two dining rooms were planned. The entire floor—walls, fitted carpets, mouldings—was done out in pearl grey and decorated with large black and white photographs of collections from the 1950s’ New Look era. It was a mixture of coldness, refinement and supreme elegance.

The small lift reserved for Bernard Arnault and his guests led directly to the boutique, which caused a certain northern banker to find himself, flabbergasted, in a corner of the shop that had been converted into changing rooms, under the horrified gaze of a customer in the process of undressing. This huge boutique (1,600 square metres) was intended less as a model for future shops worldwide than as the reflection of the new Dior, a temple of luxury.

Arnault’s eyes shone with delight when, on 20 March 1987, dressed in a brand new dinner jacket he greeted Madame Jacques Chirac, Sophia Loren and Sylvie Vartan as they arrived for the company’s 40th anniversary celebrations. The new Dior sparkled. In the Avenue Montaigne traffic was at a standstill as cars stopped to admire the giant lily of the valley on the façade and the magnificent marquees set up around the building. The guests, each more famous than the last, had difficulty clearing a path to reach the rooms converted into a nightclub draped in tulle.

Bernard Arnault was flaunting his success. He had won his spurs at an age when most of the people he had been at college with were mere employees. How right he had been not to follow their example. He must have remembered the rather snide remarks they had made: ‘Fancy joining your father’s tinpot company when you could have a career in government.’ The day before, he had welcomed François Mitterrand to the official opening of the ‘Ten Years of Dior’ exhibition at the Museum of Fashion. This evening, everyone who was anyone in Paris was coming to dinner. He had made a name for himself in luxury goods, a world which was no

longer a collection of craftspeople, but a veritable industry.

'There's a man you must meet.' It was the high priestess of fashion, Hebey Dorsey, critic with the *Herald Tribune,* who introduced Christian Lacroix to Bernard Arnault. The young man from Arles was bored at Patou. He had already been awarded the Golden Thimble, and his collections inspired enthusiasm. Encouraged by his financial adviser, Jean-Jacques Picard, he wanted to go further, to create a ready-to-wear range. Jean de Moüy, the chairman of Patou, was reluctant however, and besides, he did not pay all that well—no more than 25,000 francs a month. Bernard Arnault was interested in this unappreciated designer, and was won over by him over lunch. He was certain that he ought not to let Christian Lacroix slip through his fingers.

What should he suggest? Dior ready-to-wear? His own fashion house? Arnault had cost-benefit analysis done and followed his intuition. He launched a great fashion house, Christian Lacroix, run by Paul Audrain. Seventy million francs were put down initially, with a further investment of 200 to 250 million francs planned over five years.

Jean de Moüy brought legal proceedings. But what did it matter? The first collection was a triumph. The world's press greeted him as a genius, and sang the praises of the first creative fashion talent since Yves Saint-Laurent. It was an unparalleled media success. The praise was so great that it became a handicap. Would the accountants see it the same way as the press? Would their production and distribution be able to cope?

Using licences, should the market be flooded with the trinkets women were clamouring for? That was Paul Audrain's strategy. He said: 'Lacroix has a highly distinctive style and accessories that make a strong fashion statement—we had to make them visible everywhere, we had to ride the wave of success and create a solid commercial empire based on bags, shoes and jewellery sold in the four corners of the globe.'

Learning from what he saw at Dior, Bernard Arnault made another choice, the strategy of exclusive shops along the lines of Chanel or Hermès; in order to keep complete control of what was to come, he intended to be the equivalent of Dior: a great fashion house with a ready-to-wear range and perfumes.

A network of shops is not built overnight. The edifice took a long time to construct, everything had to be perfect. The first shop,

in the Faubourg Saint-Honoré, was to serve as a test. Bernard Arnault wanted it to reflect his designer—young, colourful, bringing with it a ‘breath of fresh air’. To do this he called in Garouste and Bonetti, the masters of contemporary decor.

The Lacroix adventure went to Bernard Arnault’s head. Forty years after Marcel Boussac, he was reliving the same adventure—the birth of a fashion house. For the first time he had the impression of having completed a task. But the chairman of Dior did not stray from his path. Relentlessly he pursued his ascent and seized (as was his father’s technique) every passing opportunity.

One opportunity he missed: Ted Lapidus. This misadventure showed clearly the character of Bernard Arnault who wanted complete victory over his adversary, at the risk of losing everything. Taking over Boussac, Arnault had inherited the Ted Lapidus label, owned by la Belle Jardinière (Lapidus had been the first to invent a ready-to-wear range signed with the name of a designer). But endless court cases confronted Ted Lapidus, still in possession of his company, with the large house owning the label. The solution to this conflict lay in selling the company to the fashion designer. Negotiations were on the verge of coming to a successful conclusion when Ted Lapidus called saying he was in a hurry: could the date of the transaction not be brought forward? A weakness which the Arnault group exploited. The group lowered its offer by 5 million francs. Was the decision taken by Bernard Arnault or his negotiator, as Pierre Godé claims today? The fact is that Ted Lapidus did not allow himself to be pushed around. He did sell but to someone else, Erich Fayer, the owner of Balmain. It would take another three years of conflict before Ted’s son Olivier would finally settle the situation by taking over everything with the aid of another businessman, Frantz Braha. Lapidus had escaped Arnault.

Such a misadventure was not to happen again. The chairman of Dior did not let Céline pass him by. The Vipiana family, which had no heirs, was seeking to sell the majority stake in its business. The dealers in fine leather goods, with 80 shops throughout the world, had a turnover of 450 million francs and made a profit of 20 million. Against the advice of some of his bankers, Bernard Arnault was convinced that this classy leather goods company was well placed to take on a new lease of life. He jumped at the chance and in June 1987 acquired 65 per cent of Céline’s capital. The family remained in control to carry out modernization and development,

but this agreement did not last long. Bad feeling was such that in September the Vipianas sold their remaining share and were replaced by a thirty-eight year-old American, Nan Legeai, a firm-handed woman with a feline appearance who had attracted Bernard Arnault's attention while she was at Dior.

Five years for Férinel, two years for Boussac, one year for Lacroix, a few months for Céline—Bernard Arnault's upward mobility was gaining momentum.

4
A STRATEGY OF ATTACK

'This is scandalous. You don't realize the risk you are making me run. I'm going to demand the seizure of *La Vie française* straight away.'

'Calm down, Bernard, it's not that bad.'

Despite the efforts of Vincent Bolloré, the chairman of the industrial conglomerate Bolloré Technologies, Bernard Arnault's anger did not subside. On Friday 28 September 1987 there was a strange atmosphere at the colloquium of the fortnightly magazine *L'Expansion.* The organizers had thought they would please the guest of honour, Bernard Arnault, by celebrating his faultless career in the presence of the luminaries of the business world. That week's edition of *La Vie française* (one of the *Expansion* group's magazines) was devoted to the young proprietor of Dior, with a superb cover photograph of the handsome chairman and the eye-catching headline 'This man is worth two billion'. Far from making him proud, all this attention enraged Bernard Arnault. He threatened to stop advertising in the *Expansion* group.

No action was taken against the press group, but the episode was to leave its mark in Bernard Arnault's immediate entourage. Already mistrustful, he kept a more attentive eye on his children whom he forbade from using the metro or the bus to go to school. Every day Madame Arnault had to take Delphine and Antoine to school by car. And when the children asked to go alone or to go to the cinema with their friends their father refused point-blank.

If Bernard Arnault's ego grew at the same rate as his meteoric rise, his anxieties also followed the same path. His susceptibility was to grow from that day on. Nothing must get in his way, he could only succeed if he was free of all worries. He was not yet at the end of his path. After a promising start, Arnault had quickly developed a taste for business. He wanted to go even further, and quickly. It has to be said that the time was particularly propitious for his burning ambition.

After deregulation of the market in 1984, the Paris stock exchange

experienced a new awakening. Flotations multiplied. Stock exchange transactions became more and more frequent. New financial techniques such as take-over bids and friendly or hostile exchange bids became commonplace. Twelve take-over bids in 1986 as against only three in 1984. It was the time to seize new opportunities, particularly as the expansion of the Paris financial sector was not accompanied by appropriate legislation, which allowed a good number of financial dealers to give free reign to their ingenuity, with relatively little risk. Fortunes were being made every day in France at that time. Rapid and ostentatious fortunes. This was the era of youth triumphant. The more cheek you had the more you were praised and the more you earned. This disturbed certain attitudes of mind, but the movement was under way. Speed was of the essence. The stock exchange authorities would wake up one day. The legal mess was not to last long.

Bernard Arnault had the exemplary career of his friend Jacques Letertre in mind. The latter had been successful because he had acted quickly. In less than four years he had become the chairman of Duménil-Leblé, a former small brokerage company turned bank, and presided over a colossal fortune. His recipe was to take advantage of the pitfalls of regulation whenever possible. To begin with he had clearly taken advantage of rate differentials by identifying a profitable niche between the money market and the debenture market. Duménil issued securities for two to ten years with a current rate of interest of 9.5 per cent at five years. At the same time he used the capital raised in this way to subscribe to debentures of the same duration at up to 11 per cent. All he had to do was pocket the difference. It was his success that made the Banque de France regulate activities relating to 'spreads rate differentials' and limit the pay-out. Subsequently, Jacques Letertre became a specialist in the technique called 'greenmail'. This consisted of buying a package of shares in a company vulnerable to takeover with which he renegotiated the buying back of the securities at a generally higher price, threatening to sell them to a potential buyer. A sure way of producing short-term profits.

There is no need to point out the extent to which Duménil Leblé was feared. Sometimes Bernard Arnault accompanied his friend in his raids. For example—La Redoute. In December 1986 a mysterious raider made a bid for the mail-order company La Redoute. Its share value rose. In order to protect itself the mail-

order group threw itself into the arms of the Printemps group. The value of shares in La Redoute continued to rise. The raiders emerged from the shadows and transferred their shares to Printemps. They were Jacques Letertre in alliance with Bernard Arnault. A little later Duménil attacked Moët-Hennessy in the same way (for a 'greenmail'). Was Arnault involved in this attempt? The mystery has still not been solved.

In contrast to those of his peers, the ambitions of the young proprietor of Dior were not limited to getting rich quick. Capital, above all, had to serve his plans which were beginning to crystallize. He had such an appetite for victory and such a capacity for work that he was bound to succeed. His determined character attracted the attention of the biggest names in contemporary finance. Bernard Arnault had the calibre of a great captain of industry. A skilful negotiator, he surprised his partners in discussion with his self-assurance and knowledge, all the more impressive in one so young. He had earned his spurs, as far as the banking establishment was concerned, the day he bought all the shares in Willot. This episode is very revealing.

Having gauged the limits of support by financiers, Bernard Arnault sought to establish his power definitively in Boussac-Willot. He had to ensure almost total control of the group and to break away from the grip of the banking consortium which had helped him at the start. If he did not do this he would never have his hands free and would remain at the beck and call of the bankers. Boussac, relieved of its dead wood, was beginning to pick up slowly. It was clearly the right moment to convince the Willots to sell the remainder of their shares in SFFAW.[1] He offered a better price: 400 million francs. A risky deal, but Bernard Arnault wanted overall control. The sum was put up thanks to the assistance of the state-owned bank, Crédit Lyonnais. As a way of showing his gratitude he opened part of the capital in his family holding company Arnault et Associés to Crédit Lyonnais. He had caught both Lazard's and Worms unawares.

Through his industrial adventures he had been lucky enough to meet the right people at the right time. Three of these people were to play a decisive role in his career.

Firstly there was Jean-Paul Amiel, the director of Crédit Lyonnais' agency networks, who was the first to notice this new type of capitalist. His first contact with Bernard Arnault dated back

to the Férinel era. Amiel had immediately recognized the calibre of this man from the north of France. Thanks to Amiel he became a good customer of the bank, which he was never to leave. Crédit Lyonnais can boast that it has always been at his side. 'The bank has long felt that Bernard Arnault is a remarkable person,' said Jean-Maxime Lévêque, then chairman of Crédit Lyonnais.

Then there was Nicholas Clive-Worms, the owner of M. M. Worms et Cie, who was fond of new entrepreneurs whom he could back. He took the risk of assisting Bernard Arnault in the Boussac affair. The results were beyond his expectations. His stake had tripled in less than two years (Financière Agache was quoted at 650 francs at the end of 1985, and in March 1987 it reached 1,835 francs). From then on his bank was behind Bernard Arnault at all stages of his rise.

Finally there was Antoine Bernheim, the true architect of Bernard Arnault's meteoric career. He had made him his protégé and favourite of the Lazard 'stable'. Of them all, the Boulevard Haussmann banker was undoubtedly the one who fascinated the chairman of Dior the most. Just as his grandfather had initiated him into life on the building site, Bernheim revealed to Arnault the workings of the financial world which he mastered with Machiavellian perfection.

Of Bernard Arnault he said simply: 'Believe me, he is very good.' The chairman of Dior, even if he did not always share the opinions of his mentor, was very anxious for his approval. Arnault was indebted to him. It was Bernheim who passed on the secret of the most certain, rapid and least costly technique of bringing his plans to fruition. A good pupil, Arnault learned with perhaps excessive zeal.

What did Bernheim teach him? Instead of having the majority, that is 51 per cent of the capital in company A, it is better to have 51 per cent in a purely financial company B, which itself holds 51 per cent of company A. One therefore also has control of company A by dividing the initial capital outlay. This reasoning can be continued infinitely. The basic concept of techniques called cascades, Russian dolls or even stovepipe hats is as old as the world itself. Carlo De Benedetti (the Italian businessman controlling Olivetti), Jean-Luc Lagardère (chairman of the armament company Matra and publishing group Hachette) and Vincent Bolloré (head of Bolloré Technologies) all drew their inspiration from it. Bernard

Arnault was to go so far as to build a veritable pyramid. The beauty of the system lies in its forward-looking philosophy. On the basis of a minimum capital outlay, it allows targets to be attacked which are much bigger, while avoiding the initiation of a costly take-over bid. A method tailor-made for the French market and for the appetite of the chairman of Dior.

Arnault knew, however, that he could not play the game ‘I have the ideas, you get the money’ for very long with the financiers. Above all he wanted to go for healthy companies. Recognizing this did not present an obstacle. The magic formula did exist—the stock exchange. The next time, instead of counting on the financial support of investors, he would take the capital of his various companies to the stock market. Each call on the market would provide him with his initial outlay. The best way of orchestrating takeovers was with other people’s money. The small shareholders would thus replace the bankers of his earlier operations.

In 1987 the plan of action was ready. It was time to restructure the group. At the top Bernard Arnault placed Arnault et Associés, the overall parent company (ex-Boussac which became Financière Agache and Férinel). The cornerstone in the financial structure of Bernard Arnault, this company was the one to benefit most from the reorganization of the group. It not only received the dividends from the various subsidiaries in the group but was the principal owner of this disparate structure numbering no less than ten companies, most of them in profit. Arnault et Associés was 60 per cent controlled by the Arnault family, the remainder being held by a group of investors (Crédit Lyonnais, Duménil-Leblé, Banque Nationale de Paris, Groupe des Assurances Nationales, Finial...) (see Table 1). Underneath it Bernard Arnault placed Financière Agache and Férimel. Below that a group of small and medium-sized firms covering four areas of activity: luxury goods (Dior, Christian Lacroix, Céline), distribution (Bon Marché, Belle Jardinière, Conforama), industry (Peaudouce, Saint-Frères, Boussac) and finance (Facet, Crédit Financier Lillois).[2]

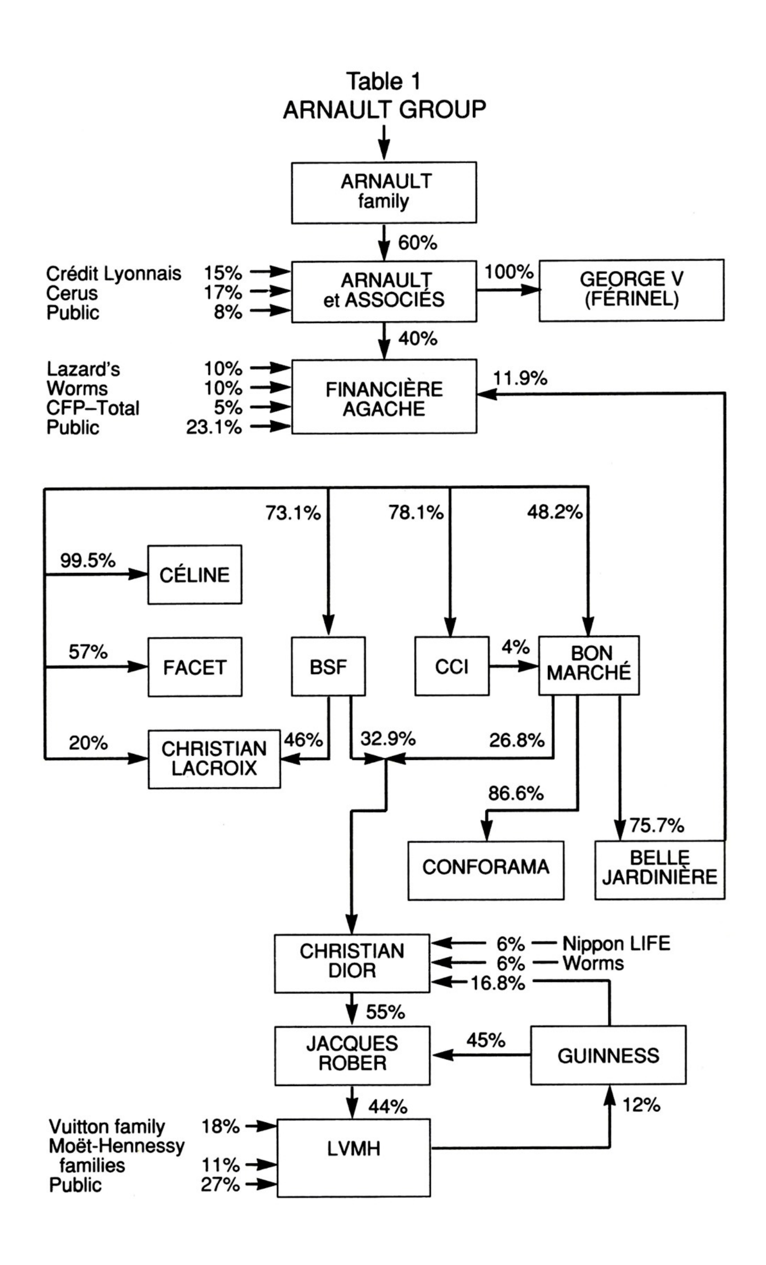


Table 1: Arnault Group

An impressive group born from the ashes of the former Boussac empire. Two years after having been in severe financial straits it had a turnover of 11.7 billion francs and made a profit of 445 million. Of course a number of lame ducks in the textiles sector had been sold, but this turnaround was mainly due to the impetus given by the young owner to the expansion of two stars in his galaxy—distribution and luxury goods. The spectacular growth of Conforama (profits up 70 per cent) and the prestige of Dior served as a powerhouse for the rest. This compartmentalized structure turned out to be a veritable treasure chest. Each time he needed money Bernard Arnault put one of his subsidiaries on the stock market, without losing overall control, but rather reinforcing it. A perfect mastery of financial techniques. This was to be the main theme of his future operations.

For his first call on the market the buyer of Boussac chose Conforama, offering small shareholders 15 per cent of the capital. The financial profitability of the chain of shops evidently ensured the success of the introduction. The operation was launched in September 1987 and was an undeniable success. The second company to go to the stock exchange was to be Arnault et Associés. Shortly after Conforama, the family company put 10 per cent of its capital up for sale at the high price of 490 francs per share.

These two deals served mainly to help the position of the investors who had supported Arnault at the start of the Boussac adventure. But the technique had been perfected. From now on the stock market would finance the wildest dreams of the young owner of Dior.

Bernard Arnault was one of the best financiers of his time. He loved buying, restructuring, buying again in order to restructure again. His confidence in his abilities strengthened his virtuosity in financial dealings. The period of being an ex-student of the Ecole Polytechnique was well and truly over.

This new facet was affirmed with his rise. Behind his angelic appearance there lurked an authoritarian proprietor. He liked to increase tension in his various companies. His managerial credo became American-style 'management'. He was not worried about charisma. What mattered with him was efficiency. He still incited enthusiasm. But certain people were beginning to ask questions. His success was certainly rapid, and his methods expeditious. He did not belong to one of the great industrial families nor to the super

elite. Jealousy or fear? The fact is that this new type of businessman was going against received practice, and waking up the investment-oriented establishment.

Bernard Arnault was aware of this veiled mistrust. He felt a certain bitterness, but knew he could do nothing. For the time being his companies were operating well and his shareholders were happy. That was the main thing. Everything else was just the flip side. His immediate priority was to find a target which was worthy of his ambitions. He did not hesitate to examine several companies a week in minute detail.

The stock market crisis of 17 October 1987 attracted his attention to a share which was plummeting in value. LVMH was now quoted at only 1,200 francs. The luxury goods multi-national was worth around 13 billion francs—it seemed reasonably priced. The dream was: Dior Parfums and Dior Couture brought together under the same banner, plus champagne, luggage etc. He wanted to launch a raid, but Antoine Bernheim calmed him down. 'Wait until they come looking for you,' he told him. He waited, but not for long.

In autumn 1987 Bernard Arnault's battle plan was drawn up in detail. His launch pad was to be Dior, his aircraft, the Crédit Lyonnais, his fighter planes Lazard's, while its various companies would serve as ammunition. As for his target, that was to be LVMH.

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1 In 1984 Bernard Arnault had bought 20 per cent of the Willot shares, i.e., 105,000 at a unit price of 250 francs. The Willots kept 520,000 shares which they sold in 1986 at 750 francs each, payable over three years, i.e., 400 million francs in total.

2 Facet is a consumer credit company, while Crédit Financier Lillois specializes in real-estate credit.

5

AN INITIAL DREAM: PARFUMS DIOR AND MOET-HENNESSY

'When are you going to sell me Parfums Dior?' 'When are *you* going to decide to sell *me* Couture?' On the fifth floor of the Avenue Hoche building they knew this exchange by heart. Inevitably when Alain Chevalier and Bernard Arnault crossed paths at Parfums board meetings, they came back to the subject of the merger of the two companies. Even if at first sight the idea seemed Utopian, they both nurtured the ambition of one day bringing the two Diors back together again.

Since occupying the chair reserved for the chairman of Couture on the board of Parfums, Bernard Arnault was more determined than ever. But the undertaking was not as simple as he had imagined. Chevalier fascinated him. He admired his high profile, his cachet with the establishment and his international standing. He was dazzled by the elegance of the chairman of Moët, notably when he pushed his sophistication as far as appointing former ambassadors to the head of his various subsidiaries throughout the world. And yet, only twenty years previously the group he ran was only a small family company.

It all began in May 1968. During this turbulent period Moët et Chandon had really taken off by buying Parfums Dior. At that time Moët et Chandon had reached a decisive turning point in its history. Having been run for more than 200 years by Champagne aristocrats, the business survived the difficult period of the Occupation, got back on an even keel in the 1950s (2.2 million bottles produced in 1954) before being quoted on the stock market in 1962 to finance its future development. The directors, Robert-Jean de Vogüé, Paul Chandon and Frédéric Chandon de Briailles, understood before anyone else the stakes involved in diversification abroad. Land in Champagne was limited, and in order to grow the company began producing sparkling wine, setting up in Mendoza,

Argentina. In 1967 it was flourishing again in its former splendour.

At receptions Moët offered the men Dom Pérignon and the women Dior perfumes. Ever since Robert-Jean de Vogüé and Frédéric Chandon de Briailles had visited the Rueil-Malmaison production works, they had succumbed to the lure of the daintily beribboned Miss Dior bottles. Thus, one day while on a hunting trip in Alsace in autumn 1967, a member of the board of Banque Nationale de Commerce et d'Industrie (later to become BNP), Jacques Vizioz, casually let slip to Frédéric Chandon de Briailles, 'Boussac are looking to sell Dior.' The latter pricked up his ears:

'Dior Couture or Dior Parfums?' 'A minority share in Dior Parfums.' 'Why not?'

Difficult negotiations took place with the 80-year-old Marcel Boussac. Long discussions in the old authoritarian's Neuilly drawing-room ended with an agreement, drawn up by hand: Moët et Chandon would take a 34 per cent option in Parfums Dior with the opportunity of subsequently buying the remainder. (Marcel Boussac was to keep 1 per cent of the capital and a seat on the board, a seat later to be occupied by the chairman of Dior Couture, first Jacques Rouët, and then Bernard Arnault.)

The deal, amounting to 11 million francs, was to be financed by issuing bonds abroad through the Banque de l'Union Européenne and the BNP. However, the events of May 1968 jeopardized the project. On the day of signature, 30 May 1968, the country was in turmoil and everything was at a standstill. The directors of Moët took fright, and were ready to go back on the agreement. Frédéric Chandon de Briailles tried to salvage the situation. He called Jacques Vizioz: 'If you do not help us we cannot sign. We need 8 million francs.' An hour later the banker called back: 'You've got it, at 8 per cent over fifteen years.' Frédéric Chandon de Briailles returned to the board: 'The loan has been agreed.' The news was comforting but not convincing. It took General de Gaulle's speech to break the deadlock, and the document was signed shortly afterwards.

From one day to the next Moët et Chandon securities rocketed on the stock exchange. The 200-year-old company had succeeded in the transfer and had taken on a new dimension. With an avant-garde lucidity the directors realized that family administration was no longer enough. There had to be a real manager capable of ensuring the financial future of what was now a group. The

ancestor of the steel company Sacilor, a brilliant former student of Ecole Nationale d' Administration (ENA, the Parisian college from where civil servants graduate), Alain Chevalier, was bored. He was head-hunted, and a single lunch at Epernay sealed the deal.

Having left the Ecole Nationale d' Administration at the age of twenty-eight, Alain Chevalier had spent a long time deciding between a future as a top civil servant or a career in the private sector. Following the example of his friend and contemporary Jacques Chirac tempted him. Like him he had been at the *administration,* but the case work was beginning to get him down. A career as a ministerial civil servant did not really interest the son of a prominent figure from Algiers during this period of unconditional Gaullism. So he chose to take time out in the world of ironmasters and employers, stayed six years at Sacilor and entered the Conseil National du Patronat Français (CNPF) economic commission. But he was not at ease in either the troubled iron and steel industry or with the great barons at the CNPF. Given these circumstances the meeting at Epernay was a godsend.

Robert-Jean de Vogüé exercised his charm and took risks: 'He should be appointed to the board, otherwise a man like him will not stay.' A difficult initiative to have accepted by a board from a bygone age. But he succeeded. This would be the opportunity for Moët, which from that day on gathered momentum to become a major player on the world stage. A sign of the times was the disappearance from the annual accounts of the titles of nobility of the members of the board. Counts were moving down the social ladder…

Things moved very rapidly—the merger with Mercier Champagne, and the acquisition of Ruinart Champagne. In 1971 Moët et Chandon were looking for a brandy. For a while Martell attracted attention, but Frédéric Chandon de Briailles set his sights on Hennessy. He knew Kilian Hennessy well and a lunch at Ledoyen, the glamorous restaurant on the Champs-Elysées, was enough to ally the champagnes with the cognacs. The new group was christened Moët-Hennessy.

A few rooms in the Rue de la Trémoille in Paris were to serve as offices until a small town house belonging to the Mercier family became free at 30 Avenue Hoche. Alain Chevalier, supported by the families, then decided to build a proper head office in keeping with

the image of the new group. A large modern building brought together Hennessy on the first floor, Moët on the second, Parfums Dior on the fourth and fifth, the accounts department on the sixth, the general management on the seventh and on the eighth two dining-rooms overlooking the roofs of Paris, decorated in lacquer and orchids and reflecting the new manager's fascination with Japan.

The move had scarcely been completed when Alain Chevalier and Kilian Hennessy flew off to the United States. In 1972 they bought their first land in California from an Italian called De Luca. 'Everyone thought they had gone raving mad,' Ghislain de Vogüé, a Moët board member, recalls today. In reality it was his father Robert-Jean de Vogüé who had launched the idea a few years previously. 'One morning in April 1968 during a trip to California my father and I had a meeting at 9.00 am with our importer,' says Ghislain de Vogüé. 'At 9.15 my father, who was always very punctual, had still not arrived. I was worried, went to look for him and found him at the Wine Institute tasting Californian wines. He had gone to the wrong room. That same evening he said "we must do something here". When, a few years later, Alain Chevalier told him of his idea of going to California to develop our brand name, he agreed without hesitation. He was able to inaugurate the winery in 1976 a few months before his death.' The Californian experience was to be Alain Chevalier's great adventure and his best years. The 200,000 bottles produced during the first season had increased twenty-five-fold ten years later.

Expansion continued with Roe in 1978. The proprietor of the cosmetics sold in chemists' shops had no heir. Alain Chevalier saw it as an opportunity to reinforce Parfums Dior with a complementary range of products. The investment turned out to be disappointing, but no more than that.

Then came the days of wine and roses with Delbard. The acquisition of roses was not only for aesthetic reasons. Diseases of flowers are similar to those of the vine and, under the aegis of Delbard, Moët-Hennessy developed an *in vitro* research laboratory which was invaluable for champagne vine stocks. Only the purchase of the American Armstrong nursery was to prove a real setback. The difficult market, competition from Colombian flowers, lax regulations, and the impossibility of protecting the names of roses for more than a year, were to cause Alain Chevalier to sell his roses

with their costly thorns.

Moët-Hennessy entered the 1980s as an international group, but talk of luxury items was not welcome. The term 'luxury' still had connotations of the craftsman, nothing to do with real industry. At the annual general meeting in 1979, the chairman, Frédéric Chandon de Briailles, set out the following: 'How can one believe that champagne is still synonymous with luxury when more than 128 million bottles are sold on the French market? Is drinking cognac a luxury when, for Hennessy alone, sales amount to nearly 2 million bottles in Ireland, which has a population of little more than 3 million? Let us rather talk about prestige.'

This proved to be one of his last speeches. In 1981 he gave up his seat to Alain Chevalier. The new chairman began his term by bringing in young blood to key management posts. At the head of Parfums Dior he placed the forty-three-year-old Maurice Roger (poached from Sanofi, which specialized in cosmetics and pharmaceutical products), a former student of the Ecole Polytechnique who had retrained in marketing. At Epernay, a forty-year-old oenologist from Champagne, the quietly efficient Yves Bénard, was put in charge of running Moët et Chandon. To assist him Alain Chevalier sought out a forty-three-year-old financier, Jean-Louis Masurel, director general of Paribas, the investment bank.

While keeping a watchful eye on Moët, Alain Chevalier nurtured other ambitions. Chief among his priorities was diversification. So he set his sights on the fashionable communications sector. His taste for wielding power behind the scenes was to take precedence over the fleeting temptation of a career in politics. Chevalier intended to take advantage of his friendships and relationships to play a key role in privatizing the sector. He wanted to become the fulcrum of a great European communications centre. However, he overestimated the strength of his hand. His media ambitions were limited to an 8.7 per cent share in CLT (Luxembourg Television Company) which he sold to the Groupe Bruxelles-Lambert (GBL) in 1987.

This interlude over, Chevalier returned to the company. The atmosphere was gloomy. In 1987 Moët entered a period of great anxiety. At the end of 1986 a rumour was gaining increasing currency that 3 billion American dollars were looking for a French ally to attack Moët. Unknown hands were amassing large numbers of shares on the stock market. This fear was all the more justified as

the founder families of Moët-Hennessy now only controlled 22 per cent of the capital (but 36 per cent of the voting rights). The Moët management were unable to identify the raider. At one point there were whispers that it was the British group Grand-Metropolitan. Anthony Tennant, at that time managing director of Grand-Met, and George Bull, chairman of IDV (the wines and spirits subsidiary of the British group and distributor of the French group) and related to the Hennessys, firmly denied any intervention. It soon became clear that the acquisitions were being carried out via Duménil-Leblé whose chairman Jacques Letertre was a friend of Bernard Arnault.

The anxiety of the Moët managers was made worse by the obsessive fear reigning on the stock market at that time. French companies were suddenly becoming aware of their fragility. Once attacked they had no means of defence. They could neither buy up their shares on the stock market to raise their price, as in America, nor issue new shares with multiple voting rights, nor could they restructure. French managers' spirits were low. In this context, who better than Lazard's to protect Moët? It was better to have the Boulevard Haussmann bank with you than against you.

Relations between Moët and this powerful institution had not always been peaceful. Chevalier had accused Lazard's of tipping the balance in favour of Bouchois Souchon Neuvesel (BSN), the French food giant who won the battle against Moët for Pommery Champagne in 1983. However, two years later, Antoine Bernheim, second in command of the bank (after Michel David-Weill) succeeded in bringing Moët back into the Lazard fold. The occasion was a possible *rapprochement* between Parfums Dior and Dior Couture, which had just been bought by Bernard Arnault, Bernheim's protégé. The deal did not take place, but it reconciled Chevalier with the Boulevard Haussmann bank. Bruno Roger, the namesake of Maurice Roger, another star partner, friendly rival of Antoine Bernheim, became the friend and privileged interlocutor of Chevalier. He joined the board of Moët in 1986. On the Boulevard Haussmann both divisions of Dior found their champions: the Roger/Chevalier duo for the perfumes and the Bernheim/Arnault team for Couture.

On Friday 5 March 1987 tension was mounting at Moët. One per cent of the capital had changed hands in the course of the day, and the share price was bordering on 2,700 francs. In one month around

10 per cent of the capital had changed hands. The threat of a raid was becoming more and more concrete. Alain Chevalier and Jean-Louis Masurel called on Bruno Roger for help. Together they considered the various means of dissuasion and decided to issue equity warrant bonds on the Eurofranc market. The shareholders waived their preferential subscription right in favour of potential foreign investors whose name they did not even try to discover.

The issue was launched in mid-March 1987 under the direction of David Dautresme, assistant manager of Lazard's. The Boulevard Haussmann bank took over the leadership of the banking consortium of Crédit Lyonnais, the BNP and Credit Suisse-First Boston. Each bond valued at 10,000 francs was accompanied by 18 coupons allowing subscription to Moët-Hennessy shares at 2,720 francs until April 1990. The bonds and coupons were quoted separately. In total the deal involved almost 4 billion francs and potentially represented 18 per cent of the group's capital.

The operation was strongly criticized by the Commission des Operations de Bourse (COB), which performs a similar task to the United States' Securities Exchange Commission (SEC). The stock exchange watchdog considered that by reserving a potentially large part of the capital for foreign subscribers, the management of Moët-Chandon had neglected the interests of the group's shareholders. However, the enquiry was shelved after a visit by Alain Chevalier to Yves Le Portz, the head of the COB, who explained that his objective was to protect the company's capital from attack.

With that, accomplished, Chevalier concentrated on developing his group. This visionary quickly understood that he could not continue to live off his comfortable profits for much longer. The profitability of the company over which he presided was more than satisfactory: on a turnover of 8 billion francs it made a profit of 820 million. But Moët was small, very small compared to the world wines and spirits giants Guinness, Grand Metropolitan, Seagram etc. Their clout was commensurate with their size.

Chevalier understood more than anyone else that the key to success lay in the size of distribution networks. By controlling them, producers could considerably improve their margins. For this reason Moët bought out its North American importer Schiefflin in 1981, at that time the principal distributor of wines and spirits in the United States. Five years later it had fallen to fourth position. Time was against Moët. Strategically the company could wait no longer.

Chevalier therefore had a choice between two strategies: acquisition or alliance. Moët's size did not allow for the first solution; he therefore had to find a partner. So Chevalier decided to talk to the company's distributor in France, the British Grand Metropolitan group.

In his office at Hanover Square, a few steps from Piccadilly, Anthony Tennant awaited his visitor. He knew Chevalier and the two men got on well. Alain de Pracomtal had introduced them three years before, and the chairman of Moët had immediately been charmed by this British aristocrat.

Chevalier set out his vision of his group's future. He proposed an association in the form of setting up joint subsidiaries controlling their respective distributors throughout the world. Tennant accepted on one condition: the alliance should be formed with Guinness. As this was not already known, Tennant took Chevalier into his confidence. Having been sounded out for the chairmanship of Guinness, he was preparing to leave Grand-Met. Alain Chevalier was even more enthusiastic. An alliance with Guinness would propel him up among the world leaders in wines and spirits. Since buying Distillers, the famous Irish brewers had become the world's number one. Guinness and Moët together would have the most prestigious labels: Moët et Chandon, Hennessy, Johnny Walker and Gordon's.

Teams from the two groups very quickly began working on the terms of association. A strategic alliance which would be the origin of 25 per cent Guinness profits and 30 per cent Moët profits. All the hypotheses were studied. In the event of a stock exchange raid, clauses provided for rendering mutual assistance. A more or less textbook definition of a poisoned pill. Moët could be attacked, Guinness would be a much more difficult target.

It was during these negotiations that Tennant proposed the idea of financial consolidation in the form of cross participation. Chevalier considered this premature and refused, but knew that in the end he would have to give in.

Moët certainly got back on its feet. Development was assured and the capital secure. Chevalier, however, was not quite at ease. After all, his group's capitalization was only 8.5 billion francs. It had to expand to deter any hostile bidder. Why not a French marriage? Bernard Arnault could be the ideal partner: after all, he

owned Dior Couture. He had to wait another year. Finally Chevalier, on the insistence of his managing director Masurel, opted for an alliance with Louis Vuitton. Nevertheless, his attitude seemed condescending towards the company which he considered as a group of craftsmen rather than businessmen.

6

THE AMBITIONS OF A MODEL PENSIONER

The destiny of the Vuitton family firm changed, ever since the day when, on the banks of Lake Annecy, a young student at the Hautes Etudes Commerciales management school, Henry Racamier, met a discreet young lady, Odile Vuitton, who was to become his wife. The sleepy small company became a dynamic and ambitious group.

A long time had passed since 1851 when the ancestor of the family, Louis Vuitton, the son of a miller, had been discovered by the Empress Eugenie. An apprentice clothier, his work consisted in packing the finest outfits perfectly. Before each state visit, the Empress had him come to the Palais des Tuileries to fold her sumptuous crinolines. This it was that brought this young man from the Jura to the famous attention of Parisian high society. Three years later he set up business in the Rue Neuve-des-Capucines, at the centre of Paris life, close to the well-to-do town houses and the future opera.

Having packed so many bulging and impractical trunks he came up with the idea of making new flat models, which could easily be stacked in railway carriages and the holds of ferries. He had invented modern luggage.

Expansion was rapid. Operating initially from workshops, then acquiring shops, the Vuitton company set up in the Rue Scribe in 1871, in London in 1895, reached America in 1908, the Champs-Elysées in 1912, constructing a building at number 70 which it was not to leave until 1954—the Champs-Elysées no longer being what it once was—to set up in the Avenue Marceau. Its clients included everyone who was anyone at the turn of the century, for whom the most extravagant orders were carried out.

But there, on the banks of Lake Annecy, Henry Racamier never imagined for one second that his true life's work would begin on the day he was to take over the prestigious company which, over the years, had become a small old-fashioned family firm. At the time he had joined Peugeot Steel, like his father before him, before

founding his own company Stinox, trading in steel and special alloys, which he sold in 1976.

While Bernard Arnault was taking his first steps with Férinel, Henry Racamier had reached the age of retirement. This was to be the moment when he discovered his true vocation. His mother-in-law, Madame Gaston Vuitton, aged 80, was worried. The family was divided, the business was struggling, the Asnières factory barely managed to supply an ever-decreasing clientele. And when an importer, Michel Goémans, who was starting to make a name for himself in the Far East, came to the Avenue Marceau to explain that there was considerable customer potential in Asia for traditional quality, and easily recognized products, such as Vuitton luggage, the accountant Madame Bertrand laughed in his face: 'You must be joking, we can't even produce...'

What was to be done? Madame Vuitton called on her two sons-in-law, the young pensioner and his brother-in-law Jean Ogliastro who was to become his shadow to the point that he never went to an important meeting without him. Both ordered for an audit by the consultants Peat-Marwick. The verdict was hardly encouraging: the trading policy showed a 'complete lack of vigour'. Vuitton was moving away from luxury goods, and badly needed to restore its image.

Henry Racamier took up the challenge. He set up Louis Vuitton SA. He had a double strategy —to make Vuitton a high-prestige brand name symbolizing luxury, distant voyages and great adventure by means of sophisticated advertising policy; but also to sell throughout the world and control his own distribution network. This was to be the work of André Sacau. Like himself, a former graduate of the Hautes Etudes Commerciales, André Sacau was a small, refined, amiable man, but nonetheless a formidable company expert. He knew the world of luxury goods well thanks to his time with Christofle, the silversmith company, but above all he was responsible as marketing and sales manager for the expansion of Prénatal. Henry Racamier convinced him to come and share the Vuitton adventure with him.

When, in January 1978, André Sacau joined Vuitton, the company had two shops, in Paris and Nice, and was starting a franchise experiment in Munich. He immediately realized that he would have to pursue a different course of action. To earn money

he had to own the shops. Vuitton would never license or franchise, but would encourage partnership arrangements in all the countries in which it operated, while always endeavouring to retain control (51 per cent). To supply the shops the two men decided to do the opposite to their competitors—manufacturing in France to guarantee exceptional quality, and selling in the Far East.

The recipe worked well. In 1977 Vuitton consisted of two shops, 100 employees, 70 million francs turnover and 7 million profit. A few years later (1984) these figures would read 1,217 personnel, 1.1 billion francs turnover and 197 million profit, many other shops and much more to follow.

‘This way, sir.’ A man of about fifty with wavy hair only just going grey and a sparkling look behind his horn-rimmed glasses followed the young woman. He cast a quick glance over the smoked-glass doors of the beige-lined entrance hall, and quickly crossed a large dining-room. This must be the boardroom, he thought. He then entered Henry Racamier’s office.

The major business director at Paribas, André Battestini, was taken aback. He was more used to meeting proprietors in imposing head offices rather than bourgeois apartments. What was he doing here? Was he really in a company with a future or in a small business?

An affable man met him. ’I am very pleased to meet you. This is my brother-in-law Jean Ogliastro.’ In this modern room with the light subdued by Japanese blinds, the two men contrasted with each other. Still quite young, classically dressed (dark suits and Hermès ties), they spoke in unexpected terms.

‘We are at a turning point,’ continued Henry Racamier, ’and would like your advice.’ He explained that since he had bought the company four years before, the CCF had always been his banker and had witnessed his rapid development. But maybe it was time to take another path? A rapidly expanding business could not remain completely a family affair, and he had to consider the possibility of one day being listed on the stock exchange. But preparations had to be made for this, and the support of a commercial bank was vital. Why not Paribas, or perhaps Lazard’s?

Did he have the support of the whole family, the five brothers and sisters of his wife? Nothing was less certain. Claude, the most pernickety of all, did not appear to be very much in favour. But

never mind, he would explain to him that a flourishing company should be alert to the most innovative financial techniques.

André Battestini, an atypical Corsican, left the meeting perplexed. Henry Racamier was undoubtedly a nice man and seemed curious about everything. But to a banker used to advising groups such as BSN or the Compagnie Française des pétroles, Vuitton really did seem small. Henry Racamier wanted to cede 20 per cent of the capital for a total of 100 million francs, or seven to eight times the profits for the current year. This was a derisory sum, perhaps all the more difficult to raise for being so low! The company really did look too much like a small business. Furthermore the time was hardly right. Nobody was very optimistic in the spring of 1981. Who wanted to invest in France?

Nevertheless, André Battestini decided, against everyone's advice, to involve Paribas in the venture. He wondered whether he had not embarked on a strange scheme, but he persevered and in October 1981 a team which would remain the same for years to come was finally ready: Penhoët, a portfolio company linked with Paribas took 10 per cent, the former oil magnate Serge Desmarais's Fidic, and Pascal Gruzon (a subsidiary of Elf Acquitaine) shared the remaining 10 per cent. Louis Vuitton had taken the first steps towards a future listing on the stock exchange.

Ever the innovator, Henry Racamier was not content with simply entering the secondary market. Twenty per cent of the capital of Louis Vuitton would be taken to the Paris Bourse and on the New York over-the-counter market. Admittedly, the Securities Exchange Commission requested a few adjustments to the Far-East arrangements—these would be the source of future conflict with Bernard Arnault—but things went well. Henry Racamier had got what he wanted, the credibility offered by the stock exchange, the possibility of pursuing impressive growth, but also the need for rigorous management.

Once again he did not rest on his laurels. Reports by analysts worried him, as they underlined the fragility of a company relying on a single product; what would happen if the monogram went out of fashion?

Henry Racamier turned to the adviser who had become his friend: André Battestini. Both took stock of the position: turnover fourteen times greater than in 1977, funds of a billion francs allowing Vuitton to look elsewhere. It was necessary to find new

areas of growth but within fields of activity compatible with the image of the group. It was to be the Spanish leather clothing manufacturer Loewe who entrusted Vuitton with developing its international network. A first step but not enough to ensure the diversification of the group. The luggage-maker had greater things in its sights, and in the world of luxury goods, with capital concentrated in a few tightly closed hands, there was only a limited choice.

It was André Battestini who had the idea of Veuve Clicquot. Rumours were circulating about this family champagne company, dating back to 1772 and run by Alain de Vogüé, which owned Givenchy perfumes. An agreement or take-over bid was possible. Henry Racamier's initial reaction was negative: 'Champagne has no place alongside luxury goods, it's nothing but bubbles', but he changed his mind. It was also a sound investment, a cyclical activity to complement luggage (stocks of champagne are turned over in five years, bags in one season). After all, why not?

One morning during the summer of 1986 André Battestini picked up his telephone. On the line was Thierry de Vogüé, a colleague from Paribas Suisse, brother of the chairman of Veuve Clicquot.

'Thierry, I'd like to meet you. You know that I am involved with Vuitton. Your Veuve Clicquot business is under threat, perhaps we could do something. Let's talk anyway.'

'Sure, sure, but I am not in Paris at the moment. How about meeting at the end of the summer?'

The meeting was never to take place.

Henry Racamier in turn tried to talk to Alain de Vogüé—the response was just as cool. Racamier, however, was not discouraged, brought his plans forward, and one Friday in September, André Battestini called Thierry de Vogüé back. This time he was firmer.

'Louis Vuitton wants to make an offer for Clicquot. We need to talk about it.'

Discussions thus began on what was to be a 'friendly' offer for an exchange of stock with Veuve Clicquot. They would be difficult. They had to act quickly: 'takeover mania' was growing and Paribas feared that a predator would close in on Veuve Clicquot. On 17 November Louis Vuitton launched its offensive.

It was proposed to the shareholders of Veuve Clicquot (the family 25 per cent, UAP 10.9 per cent, IDI 5.9 per cent and BUE 3.6

per cent) that they exchange their shares for Vuitton shares or convertible securities[1] on condition that at least 51 per cent of the capital in the champagne company was acquired. Officially the deal had the approval of all concerned. In reality Joseph Henriot played the Trojan Horse. He was the former owner of Henriot champagne who had, some years before, bought into Veuve Clicquot to the tune of 10 per cent by selling them the brand which bore his name. He was also the likely successor to Alain de Vogüé. His shares would be very useful to Henry Racamier in bringing his deal to a successful conclusion.

The owner of Vuitton endeavoured to obtain them and did so. The Vogüé family would never forgive him.

The deal succeeded. The Vuitton family business became a group by acquiring a company which was almost as big as itself. Veuve Clicquot had a stock exchange value of 4.6 billion francs as against 6.2 billion for the Vuitton group. Joseph Henriot became a member of the supervisory board of Louis Vuitton at the same time as David de Rothschild, the banker who had facilitated the deals. He was soon one of Henry Racamier's closest advisers.

A few months later, Lazard's (Antoine Bernheim and Jean Claude Haas) presented an almost unique offer on a silver platter: the perfume company Guerlain. Henry Racamier acquired what he could: the 15 per cent placed on the market. A foot in the door of the company was enough, he thought: he would buy the rest later when the other shareholders needed money. He was mistaken. The half-open door was bolted, and the investment brought him nothing. Especially as he was not to sign the pre-emption pact on the other shares, proposed during the negotiations.

Nevertheless it was a prestigious deal. Vuitton emerged as the number two in French luxury goods, alongside Yves Saint-Laurent. The company was rich: 3.8 billion francs turnover in 1987 and 698 million francs profit. At the height of his success Henry Racamier had just one desire: to pursue further adventure. He would start by turning his attention to jewellery.

At the start of winter 1987 he met the owners of Cartier in Geneva (which he denied) to talk about links between Vuitton which wanted to make watches and the jewellery company which was seeking to develop a leather goods sector. The two companies had the same ideas on the luxury goods industry and similar distribution networks, but negotiations never got beyond a few

meetings. On the other hand, an agreement was within an ace of being signed with Bulgari, the Italian. This envisaged the buying of a third of the capital (that of one of the Italian brothers) by a Swiss subsidiary of Vuitton and the opening of some twenty shops. But Henry Racamier withdrew as at the same time he was negotiating with the Chaumet brothers, the owners of the Place Vendôme jeweller. Here, too, he almost went through with things, but found out, just in time, that the business was on the verge of bankruptcy.

During the winter of 1987 Henry Racamier's ambitions knew no bounds. Alliance with the greatest of the great did not hold any fears for him. This was to be his great mistake.

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1 The offer drawn up by Paribas proposed that Veuve Clicquot shareholders would exchange an unlimited number of their shares for a choice of either Louis Vuitton shares to be issued on the basis of six Louis Vuitton shares for one Veuve Clicquot share; or a convertible Louis Vuitton security with a nominal value of 5,800 francs accompanied by a cash supplement of 500 francs per Veuve Clicquot share.

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THE OPPORTUNITY: A FAILED MERGER

'Do you think Racamier might still be interested?' 'In my view nothing has changed. The project is still worth looking at.' 'Let's steer clear of doing the same as in 1986, let's mention it to our chairmen.' In the Paribas dining-room where he was lunching with André Battestini, Jean-Louis Masurel was reassured. A marriage between Louis Vuitton and Moët-Hennessy was possible, even necessary. It had been no more than a pipe dream only a year before. His former colleague at Paribas had dis cussed the project with him at that time. Masurel and Battestini had even drawn up a specific draft of the alliance between the two companies during a meal at the Carré des Feuillants in February 1986. At that time Chevalier was not very well disposed towards the idea.

On 3 April 1987 it all became possible again. Moët-Hennessy had an urgent problem—it had to arm itself against a possible take-over bid. Merging with Vuitton would allow it to double its influence. The luggage company was now a prosperous business, having successfully bought Veuve Clicquot on the stock market. Furthermore, Racamier wanted to widen the scope of his company and to find a successor.

The two groups had everything in common: the same aims, the same background of family control, a tradition going back more than a century and, of course, their culture. The merger of the two companies could only result in the birth of one of the greatest French institutions.

Thus, on leaving the Rue d'Antin bank, Masurel had only one idea in his head—to persuade Chevalier. The latter hesitated. Yet he had no particular reason to be mistrustful. Was it a premonition? The fact is he was on the defensive, but he came round in spite of everything. It was true that together the two companies would be protected from any stock market attack. Henry Racamier was old and shouldn't rock the boat. And finally, Chevalier was used to families of shareholders. He had already married the Moëts and the

Hennessys. That had all gone well. He would be able to bring about a second happy union.

Perhaps the head of Moët saw in this *rapprochement* a chance to get back at his friends high up in the administration, those who had ignored him when the cards were being dealt during privatization. The alliance with Vuitton would basically enable him to be seen as a true capitalist entrepreneur. On the strength of this analysis he agreed to a meeting with the owner of Vuitton.

André Battestini had less trouble convincing Henry Racamier. The idea of an alliance seemed interesting to him, as it would place his company among those with the highest market capitalization in France.

An initial meeting was fixed between the two chairmen for 5 pm on 15 April. Alain Chevalier arrived exactly on time at the Rue La Boétie. He did not really know his host whom he had only met by chance at receptions. It was a smiling Henry Racamier accompanied by Jean Ogliastro who welcomed him. The meeting lasted about an hour. They clearly struck the right chord with one another. Henry Racamier later confessed that he had gained a very favourable impression of Chevalier whose intellectual precision was impressive. Together they decided the project was viable and decided to appoint two negotiators in the form of their respective bankers: André Battestini (Paribas) for Louis Vuitton and Bruno Roger (Lazard's) for Moët Hennessy.

Ten days later the two financiers were at Lazard's for a working session. This was not Battestini's first visit to the Boulevard Haussmann bank. Nevertheless he was always struck by the austere atmosphere of this dominant institution in the banking world. Difficulties were apparent from the start of the discussions. Bruno Roger claimed the chairmanship of the new group for Chevalier, threatening to break off talks if Vuitton refused. Against this, Battestini managed to create a strategy committee to be chaired by Henry Racamier. On the principle of one chairmanship for each side it was decided to start the real negotiations.

Several meetings followed this encounter to set out the technical terms. Everything was shrouded in the greatest secrecy so as to avoid suspension of trading in the two shares which would risk slowing down the deal.

On 15 May the broad outlines of the pact had been drawn up.

Henry Racamier and Jean Ogliastro went to the Avenue Hoche to examine them with Alain Chevalier. It was during this visit that Chevalier told them about the distribution agreement negotiated with Guinness. Racamier foresaw no problems. However, he did not want to involve Veuve Clicquot and Canard Duchêne, the Vuitton champagnes. It was too soon. But as far as the *rapprochement* of the two groups was concerned, the main outlines were approved.

From then on the two teams worked day in, day out to finalize the agreement. The alliance would take the form of a merger, but bringing the companies together was complicated and would be the source of all the friction which was to surface later on.[1]

The future name of the new group also gave rise to long discussions. The suggestion, Moët-Vuitton, was generally accepted as expressing the dual polarity of the company—luxury goods and spirits. At Moët the proposition was appealing, but so as not to offend the Hennessy families it was rejected. The two sides agreed on a patronymic that sounded like a chemical formula: LVMH Moët Hennessy Louis Vuitton, with a deliberate inversion to accommodate all sensitivities. Paradoxically, this name was subsequently to save the image of the various products of the group. Who would have thought that such an acronym concealed companies such as Givenchy, Roc, Mercier, Ruinart, Parfums Dior and even Moët and Vuitton?

Preparations for the marriage were carried out in the greatest secrecy. For a month and a half a veil was drawn over the negotiations. Nothing was allowed to penetrate it. Almost all the meetings were held in the small rooms on the fourth floor of Lazard's. As this was the floor reserved for the bank's senior executives, only the partners had access to it. As for their juniors, they could enter only with prior permission and accompanied by company ushers. The various teams had received strict instructions to respect the confidentiality of the merger.

But as time went on it became more and more difficult to keep the secret. The various family shareholders in the two companies were aware of what was going on. Alain Chevalier and Henry Racamier therefore decided to conclude the marriage as soon as possible. The date was set for 1 June at the Bristol—where Lazard's usually dined—and a lunch was to bring together the Hennessys, Moëts, Vuitton and the architects of the merger. The protocol was then signed in the presence of the following witnesses: Jean-Louis

Masurel, Bruno Roger for Moët, Jean Ogliastro and André Battestini for Vuitton.

Of them all it was Jean-Louis Masurel who wore the most sincere smile. Chevalier remained entrenched behind his usual calm exterior. Baby-faced Bruno Roger was talking about a new artist who was currently in vogue to Henry Racamier who shared his passion for art. Jean Ogliastro broke his habitual silence for the occasion and congratulated André Battestini who was quite proud of having brought his project to a conclusion. The families also had expressions of delight on their faces. They were to be the principal owners of one of the largest groups in France. However, Kilian Hennessy, Moët's patriarch, had some reservations: 'It's strange, I don't feel right about this business,' he confided to Jean-Louis Masurel.

He was not the only one. When Bruno Roger announced the news to his colleagues at Lazard's, Antoine Bernheim's reaction was lukewarm. He knew Chevalier and Racamier well. 'Knowing the two men, I didn't think that the merger between Louis Vuitton and Moët-Hennessy would work,' he said later.

At Paribas, Pierre Schmidt, who represented the bank in VIG, a holding company bringing together the Vuitton family's investments, was of the same opinion. But these three warning signals were not enough to cloud the atmosphere.

On 3 June the merger was reported in the media at the same time as the distribution agreement with Guinness. The simultaneous announcement allowed Moët-Hennessy to demonstrate even then its independence *vis-à-vis* its new allies. The new group would have a turnover of 13 billion francs, make a net profit of 1.4 billion and be worth 23 billion on the stock exchange. The families would keep 35 per cent of the capital and 52 per cent of the voting rights.

The next day the headlines in all the economic daily newspapers were about the birth of LVMH. As for the distribution agreement with Guinness, that was relegated to second place. Throughout that week LVMH would be the focus of attention for the financial and industrial establishment. 'I admire the Moët-Vuitton deal. What these two companies have done is exemplary and excellent,' thought Pierre Bergé, managing director of Yves Saint-Laurent.

In New York, where the two securities were listed, an electronic board in Times Square announced the birth of the world's number

one in luxury goods. Bernard Arnault did not react. He had just launched the Lacroix venture and was involved in negotiations over Céline. He had other things on his mind. Certainly, he still had the idea in mind of a *rapprochement* with Parfums Dior, but the merger did not bother him. Maurice Roger, the chairman of Parfums Dior, revealed that Parfums Dior was going to be taken to the stock exchange. That was when he would do what was necessary.

Friction between the two most powerful men in LVMH surfaced immediately. Each one wanted to be pre-eminent. While Racamier flew off to the United States to introduce LVMH to the American community, Chevalier gave a whole series of interviews in Paris. He explained at length to *Le Figaro*[2] the reasons behind the merger: 'The Anglo-Saxons believe that with less than 5 billion dollars capital it is not possible to be a major international player. We are in that league thanks to LVMH.' His agreement was a good agreement. 'Groupings which do not follow any kind of industrial logic end up badly,' he continued, 'like a marriage between a carp and a rabbit. Naturally enough such unions usually end in divorce.' He did not know how right he was.

'Which floor will you be moving to, Henry?' 'I don't know yet. What about you, Alain?' 'There isn't a lift so you might be better on the first floor.'

One can imagine the conversation between Alain Chevalier and Henry Racamier at the beginning of September 1987 when, just back from their holidays, they walked together through the building site of what was to be the head office of LVMH. They stepped up both their surface affability and concealed deceit. Already they were observing each other closely, down to the last detail. The choice of this building reflected their ambiguous relationship. Far from decreasing, tension between the two newly-weds mounted throughout the summer.

Initially LVMH was to be installed in a private town house close to the Pare Monceau, a turn-of-the-century building whose windows looked out over the chestnut trees in the park. Henry Racamier had not even bothered to visit it. The address did not suit him. 'Too close to Moët,' he thought. So the search began again. The chairman of the Vuitton entourage finally found the ideal solution, premises equidistant from the Rue La Boétie and the Avenue Hoche. This was to be the eventual decision. LVMH was to be housed at 5 Boulevard de La-Tour-Mauborg, another turn-of-the-century building. At first

Alain Chevalier had some reservations. ‘You have to cross the Seine and go round the Invalides’ (the Boulevard de La-Tour-Maubourg is a one-way street), he remarked, but ended up accepting it.

Fitting out these headquarters gave rise to interminable discussions, beginning with the choice of offices for the two chairmen. Alain Chevalier first of all decided to occupy the second floor, just below the roof, with a unique view of the Invalides. Vexed at being thought unable to climb two floors on foot, Henry Racamier in turn claimed the office at the top. Chevalier wearily accepted.

The problem of offices settled, the two men turned their attention to decoration. Each one wanted his own decorator. Finally a joint solution was chosen, but the two chairmen’s style-consciousness left its mark on their architects who were in constant dispute throughout the work. So much so that until its closure the house was to remain a building site, and the chairmen hardly ever went there. Each one of them stayed in his own place, Chevalier at the Avenue Hoche head office of Moët-Hennessy and Parfums Dior, and Racamier at Louis Vuitton in the Rue La Boétie. Only the switchboard operator who conscientiously spelled out L.V.M.H. Moët Hennessy Louis Vuitton provided a reminder of the existence of a joint head office.

The co-chairmen took a malicious pleasure in provoking each other. When Henry Racamier ordered the new letterhead with the LVMH logo, Alain Chevalier appeared on it as chairman of the board. Chevalier reacted brusquely. ‘I am group chairman,’ he said. ‘Shame about that,’ retorted Henry Racamier, ‘I’ve just ordered 20,000.’

The photo sessions for *Fortune France* which devoted its first edition to the alliance of the two great companies were also turbulent. During shooting it took three hours to obtain a few photos of Chevalier and Racamier side by side raising their glasses. The architects of LVMH could not agree on the brand of champagne. It was to be Moët.

The first note of serious discord was Lanvin, the fashion house created by Jean Lanvin. This *haute couture* company was for sale, and Henry Racamier was very interested. Lanvin was a prestigious name and an obvious complement to his activities. Alain Chevalier refused point-blank. This man, who two years later would put 600

million francs on the table to acquire Balmain, also a fashion house, did not want to hear any talk of Lanvin; 300 million was too much for a company which was falling apart at the seams. Its fashions were in decline, with its new designs far too young for the company's traditional clientele. Moreover its perfumes were losing ground, especially in the United States where they were being sold in supermarkets. Henry Racamier agreed and abandoned the idea of his own accord.

These differences left their mark, emphasizing as they did diverging viewpoints. Alain Chevalier, chairman of the group, gave priority to internal growth, and sought to become familiar with the activities of the various LVMH subsidiaries from the inside. But access to Louis Vuitton was denied him. Henry Racamier on the other hand exhibited an impressive compulsion for external growth, seeking through every means to supplement Louis Vuitton's range of activities.

More than anything else, the Piétrini affair was to bring their incompatibility to a head. Michel Piétrini had just left the post of managing director of Chanel, his departure taking place under circumstances which were not entirely clear. Had he been dismissed by the Wertheimers, the owners of Chanel? Or had he left of his own accord? The mystery was never to be resolved. Despite this, the managing director of Chanel was known for his efficiency and competence, and the revitalization of the company founded by Coco Chanel was down to him. In ten years he had made this 'Sleeping Beauty' into a true international company without it losing its personality in the process. The single shop in the Rue Cambon saw the birth of many little sisters along the same lines. Piétrini's work fascinated Henry Racamier.

At the age of 75 the new priority of the chairman of Louis Vuitton was to ensure his succession at the head of the family company. Piétrini was the ideal candidate to succeed him both at the head of Vuitton and the LVMH strategy committee. Mentioning this to Alain Chevalier he again came up against a categorical refusal from the chairman. Chevalier and Masurel were not interested in Piétrini, especially as future chairman of the strategy committee. The director-general of Chanel did not inspire them with any confidence. Henry Racamier could, if he wanted, appoint Piétrini to the head of Louis Vuitton, but that was all. The merger agreement provided for the possibility of each naming his successor.

But there was nothing to be done, Chevalier would not give in.

Racamier capitulated and Piétrini left to join Bernard Arnault for a time. 'Arnault is a man who understands the luxury business,' thought Racamier, who was beginning to get seriously worried. The chairman of Vuitton realized that he did not occupy the place he desired and deserved in the luxury goods conglomerate. Chevalier and Masurel were constantly trying to increase the standing of their champagne and cognac at the expense of his luggage, and they had a firm ally in Guinness. The British brewers frightened Racamier, who suspected them of wanting to take control of all concerned. He had no desire to see his products fall into the lap of a common beer seller. The owner of Vuitton was disappointed. He was now convinced that his group had not merged with Moët-Hennessy but had been absorbed by them.

In fact Alain Chevalier and Henry Racamier only implemented one deal together and that was unsuccessful—the secret purchase of 10 per cent of the capital of Hermès through Crédit Lyonnais. It was a hostile deal which the chairman of Vuitton carefully concealed from the chairman of Hermès, Jean-Louis Dumas. The veil of secrecy was never lifted and Crédit Lyonnais finally sold this investment to the leather goods manufacturer's traditional bankers.

From a financial point of view, however, the merger was a success. At the same time as Martell was under attack from Seagram and Grand-Met, the financial establishment applauded the merger between Vuitton and Moët. It was clear that thanks to this alliance Hennessy would remain the only large French cognac company. On the stock exchange its share value rocketed. LVMH securities broke the 2,500 francs barrier just before the slump in October 1987. By being attacked the group became more and more valuable.

However, financial and economic performance are not everything. Personal differences made the whole structure more fragile. The dissension at the top of LVMH opened up a breach for a potential intruder. This was to be Bernard Arnault's opportunity. He was already waiting in the wings.

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1 Technically the operation was in three stages. Initially Moët-Hennessy and Louis Vuitton transferred their assets to two separate companies. Moët-Hennessy transferred all its investments, with the exception of Parfums Dior and its champagne vineyards, to Hoche

Participations, a company established purely for the sake of the merger. In return, Moët-Hennessy received shares from Hoche Participations. Louis Vuitton transferred its assets to Veuve Clicquot. In exchange Louis Vuitton was remunerated with Veuve Clicquot shares.

Once these transfers had been carried out, Moët-Hennessy and Louis Vuitton, both relieved of their assets, merged on the basis of one Moët-Hennessy share for 2.4 Louis Vuitton shares. Parities calculated on the basis of shells. After these operations the three holding companies adopted their new corporate names: LVMH for Moët-Hennessy; Louis Vuitton for Veuve Clicquot; Moët-Hennessy for the company Hoche Participations.

The directors of Moët were later to be criticized for these arrangements, as the Vuitton shareholders considered it to be a takeover of Vuitton by Moët and not a real merger.

2 *Le Figaro,* 5 June 1987.

8

RACAMIER COMES TO FIND ARNAULT

On 17 October 1987 the financial community was assembled at the Bristol. Gilberte Beaux had received the Veuve Clicquot Prize for businesswoman of the year, but she did not manage to hear all the congratulatory speeches. Frequent telephone calls interrupted her. Stock exchanges all over the world were tumbling. Share indexes at the principal financial centres were in freefall. There was panic.

Serenely, Henry Racamier defused the situation. 'This is all of no consequence. The value of our companies is much greater than their stock-exchange prices. They will go up again sooner or later,' he explained with Olympian calmness to his neighbours, while his family's fortune was reduced by almost 50 per cent in one fell swoop (LVMH was quoted at 2,540 francs on 16 October, but had now fallen to 1,270).

On returning to his office in the Rue La Boétie he received a telephone call from André Battestini. His banker suggested taking advantage of the stock-market crash to amass LVMH shares. A prudent idea. This would allow him to turn the situation to his advantage *vis-à-vis* Alain Chevalier by strengthening his influence as a shareholder slightly. This cohabitation between the two men had now lasted five months but their relationship was becoming more hostile every day.

The operation was launched. In a few sessions Paribas acquired around 3 per cent of the group's capital on behalf of VIG, the Vuitton family's holding company. These acquisitions brought the total Vuitton investment to 21 per cent[1] as against 13 per cent for the Moët-Hennessy families. On the basis of the same calculation, Alain Chevalier and Jean-Louis Masurel decided to put to the vote of the general meeting of shareholders the purchase of 10 per cent of the group's capital, reinforcing the non-existent self-control of LVMH. The management also timidly bought some subscription coupons attached to the equity warrant bonds which Moët-Hennessy had issued in March 1987.[2]

Secretly Bernard Arnault acquired his first shares. In the autumn of 1987 he was moving forward slowly, until such time as his finances were in a healthier position. Although his group had 3 billion francs at its disposal this was not enough for the chairman of Dior. He began by turning to private finance. In less than a month he had managed to raise the equivalent of 1.5 billion francs in the form of various credits.[3]

The providential opportunity came with Peaudouce. The French nappy company was very profitable with a business turnover of 2.1 billion francs and a profit of around 100 million. Arnault would be able to sell it at a good price. In autumn, therefore, he started talks with the Swedish Mölnlyck group. A fine negotiator, he was able to impose his price: 2 billion francs. This decision provoked the anger of the public authorities which for a time threatened to refuse the Swedish group the sacrosanct authorization for foreign investments in France. 'Peaudouce was too small to be able to resist the international giants in the sector,' pleaded Bernard Arnault. On 20 January 1988 he signed the deed of sale. At the same time, over lunch with Christian Derveloy, the chairman of Prouvost, he negotiated the sale of his textile activities.[4]

On 25 January he laid his cards on the table. In an interview with *Le Figaro*[5] he declared: 'In the current economic climate the stock exchange is at its lowest. There will be opportunities to seize, both in luxury goods and distribution. The key is to make the right choice and skilfully to apply rational methods.' He could say this all the more easily as he had battle funds of around 6 billion francs.

As the months went by, moves on LVMH shares intensified to reach their peak in April and May.[6] At each stock-market session more than 2 per cent of the capital changed hands. Everyone was buying. Bernard Arnault accumulated 3.2 per cent, VIG acquired 0.6 per cent…

In the corridors of the Palais Brogniart, the head offices of the Paris stock exchange, there was talk of a possible take-over bid for the group, but nobody then imagined that Bernard Arnault could have been a possible predator. Especially Henry Racamier, who went to seek him out in the hope of ousting Alain Chevalier and his team.

The chairman of Vuitton had had enough of the hegemony of the wines and spirits division in the group. He needed a new partner to strengthen the influence of the luxury goods division, i.e.,

that of Vuitton. At one time he thought about his associate in Asia, Michel Goémans, but Michel Piétrini persuaded him that the only possible ally was Bernard Arnault. The chairman of Dior had come to Racamier's notice. It appeared Arnault had the same approach to the world of luxury goods. Bernard Arnault's young age was the decisive factor in the chairman of Vuitton's decision. He could not become a rival, he thought.

One can imagine their first telephone conversation one morn ing at the beginning of May:

'Would you be interested in a stake in LVMH?' Henry Racamier would have said somewhat condescendingly.

'It would be a great honour,' Bernard Arnault would certainly have replied in a very deferential tone.

The young proprietor of Dior would have hung up with a predatory smile. 'I've won,' he probably thought before inviting his senior managers for lunch.

Bernard Arnault did not talk to Antoine Bernheim; that was still premature. Lazard's was already involved with Chevalier. So he turned to Crédit Lyonnais. An initial meeting was arranged with Henry Racamier's banker at Dior's head office.

André Battestini remembers that first conversation with Arnault. The icy atmosphere of the Rue Françoise I contrasted with the warmth of the Vuitton offices. 'Bernard Arnault can turn on the charm when he has to, but one's initial impression is that he has all the warmth of a cold fish,' he recalled. The proprietor of Dior must have tried extra hard to be courteous to ensure that he gained the confidence of his first allies.

The meetings increased during June in a secret location: the Parisian apartment of Michel Piétrini in the 8th *arrondissement.* Both parties' concerted plan of attack was perfected.

During the week of 20 June, the project was finally ready. A take-over bid for 30 per cent of the LVMH capital was to be launched by Financière Agache at 3,000 francs a share.[7] Taking into account Vuitton's involvement in the group (21 per cent) and the double voting rights attached to their shares,[8] power would have shifted in favour of Racamier. Bernard Arnault wanted an additional guarantee: a right of pre-emption on shares held by the Vuitton family. He was to obtain this for a period of four years. The operation was to be launched at 8.45 am on 27 June.

On their side Alain Chevalier and Jean-Louis Masurel were

organized under pressure from Anthony Tennant, the chairman of Guinness. A quarter of the profits of his group came from the distribution agreement with LVMH. What would he do if one of his competitors attacked the French multinational? It was difficult for him to become involved in a stock-exchange battle. The Guinness scandal[9] which had tarnished the image of the brewer in 1986 had sprung back to life with the arrest of a number of financiers. Anthony Tennant thus decided to strengthen his position in LVMH and proposed a cross-holding. The British wanted an exchange relating to 20 per cent of the capital. They informed Alain Chevalier, who called a board meeting for 2 June.

As he went through the door of the town house on the Boulevard de la Tour-Maubourg, the chairman of LVMH thought that things would be difficult. Henry Racamier would never accept Guinness entering into the capital. The boardroom gradually filled. Chevalier opened the proceedings with a brief summary of the stock-market situation and warned the meeting of a possible external attack. Henry Racamier interrupted, saying this was no more than a 'nervous pregnancy'. The chairman proposed the principle of a cross-investment with Guinness. To his great surprise the board approved the plan but only agreed to the British group entering with a 2 per cent interest. He was back to square one.

During the following week further negotiations with Guinness took place. The British brewer, invoking accounting reasons, did not wish to go below 20 per cent. Indeed, according to the regulations in force in Great Britain, companies could only consolidate their investments in excess of 20 per cent. Tennant took the LVMH motion as a joke.

There was an impasse. Chevalier called another board meeting for 9 June. The British proposal provoked a very lively reaction from Racamier. The board came to a settlement: it would accept an investment of more than 2 per cent but not beyond a threshold of 10 per cent. Henry Racamier called upon the good offices of Jean-Paul Parayre. Was the chairman of Dumez, a member of VIG, to stand surety while Racamier prepared his counter-offensive? Parayre kept the owner of Vuitton up to date on the negotiations hour by hour. On 20 June the British reduced their claim to 12 per cent of the LVMH capital. Racamier accepted. Chevalier and Masurel breathed a sigh of relief. For a moment they wondered why the owner of Vuitton, who harboured the greatest mistrust of the

beer company, had changed his mind so easily. They didn't wonder long enough. They were wrong.

Dealings between Racamier and Arnault had taken place in the greatest secrecy. Thus, during the annual general meeting on 23 June, when one shareholder worried by the stock-market fever for LVMH shares, asked whether Bernard Arnault was in the running, it was categorically denied. A lie which gave Henry Racamier forty-eight hours' respite, certain of having found someone to counterbalance Alain Chevalier. On Friday 24 June the latter left for Megève in the French Alps. The weekend truce was not to be, as everything gathered momentum.

On the Saturday morning he received a telephone call from Henry Racamier who wanted to see him immediately. Given his insistence he suggested meeting him in Geneva later in the day. Racamier announced the take-over bid drawn up with Bernard Arnault. Chevalier, filled with consternation, asked for a period of reflection until the following Wednesday, which was agreed.

On Tuesday 26 June at 5 pm, Henry Racamier left the race course at Longchamp where he had been entertaining members of Parisian high society at the Grand Prix. He headed for the Rue François I to warn Bernard Arnault of Alain Chevalier's hostile reaction. A delay was necessary, it would no longer be possible to launch the take-over bid the next day as planned. Arnault was furious. However, this visit suited him, allowing him to play off both sides. Straight away he called Antoine Bernheim who immediately asked him to come to his Paris home. The Lazard's partner gave a stern warning to the chairman of Dior: 'Be careful, Racamier wants to use you against Chevalier. If you go along with him, he will have you in turn,' he told him. A few hours later, at 9 pm, Alain Chevalier and Bruno Roger arrived at Antoine Bernheim's flat to meet Bernard Arnault.

During the course of finely argued discussions lasting more than three hours, the chairman of LVMH and his financiers from Lazard's succeeded in convincing Bernard Arnault of the suicidal nature of the operation. 'A take-over bid will only lead to a counter take-over bid,' they all told him. But the chairman of Dior was not content to leave it at that. The opportunity was too good to be missed, he had to make his move, come what may. He therefore suggested to them, as an alternative, entering the capital with the support of the Moët-Hennessy families. Alain Chevalier accepted but laid down his

terms: Guinness must also have its say in the matter. LVMH had committed itself to the British firm and could not go back on its promise. Arnault ended up accepting: 'Basically Guinness is going to finance my plans,' he must have thought.

The deal was concluded at 1 am on the morning of 27 June 1988 and retained the principal of an Arnault-Guinness association. Some hours later, Anthony Tennant and his bankers, Lazard Brothers[10] and Indosuez, met the chairman of Dior and his loyal followers Robert Léon and Pierre Godé.

During the week the main outlines of an agreement to be finalized during the night of 6 and 7 July were drawn up. These envisaged the setting up of a joint structure, 'Jacques Rober', named after the company owning the former Dior boutique in the Rue Boissy-d'Anglas, which had become a shell company. 'Jacques Rober' would be 60 per cent controlled by Financière Agache and 40 per cent by Guinness, and would hold all the LVMH shares bought by the two partners. However, before going any further the agreement of the Moët-Hennessy families would have to be obtained.

When Henry Racamier introduced Bernard Arnault to the representatives of the Moëts and Hennessys on 30 June, he was obviously not aware of the dealings between the chairman of Dior with Chevalier and Guinness. Neither were the families. The chairman of Vuitton set out his proposed take-over bid which provoked the anger of the families. They saw it as betrayal from within, whereas they had feared an external raider. They would never forgive him for this. They therefore asked Henry Racamier to leave the room.

Frédéric Chandon de Briailles and Alain de Pracomtal pointed out the dangers of a take-over bid to Bernard Arnault: 'Not only may another group attack us, but we risk our best collaborators leaving us,' they told him. Arnault took the point. Alain de Pracomtal continued: 'Would you have anything against associating with Guinness to whom the group has committed itself?' Bernard Arnault was quite happy to say no. In return for this agreement he wanted a right of pre-emption on Moët and Hennessy family shares, i.e., 13 per cent of the capital. He got it. The agreement was signed at Lazard's at the end of July. Among the 200 family members there was no unanimity. About 15 young 'reformers', among the Hennessys in particular, thought that their hand was being forced.

Be that as it may—if they wanted to sell their share they were forced to give priority to Bernard Arnault.

This strategy began to bear fruit. Bernard Arnault had succeeded in bringing everyone round in less than a week. Beginning with Racamier, who was still counting on him to overcome Chevalier. Then there was Chevalier, who was convinced he had found in him the support necessary to neutralize Racamier. Just like the families who from now on were condemned to playing his game. Finally, Guinness—which, thanks to Arnault, had obtained a seat at LVMH.

A skilful setup. Everyone believed they owed him something. Nobody yet suspected the true designs of this young man. 'They are not big enough to compromise my plans,' he must have speculated. As he knew, he was holding all the trumps.

During the first days of July, a little before the official announcement, Henry Racamier was told of the joint entry of Arnault and Guinness into his group. He was too late. The two new shareholders had amassed 16 per cent of the shares on the stock exchange. Lazard's and Alain Chevalier had supplied them with the equivalent of 8 per cent of the capital in the form of equity warrant bonds.

At 10 am on Friday 8 July the entire board of LVMH was present in the private town house on the Boulevard de la Tour-Maubourg. Alain Chevalier, convinced he was playing Arnault off against Racamier, triumphantly announced the grouped entry of two new shareholders. They held 24 per cent of the potential capital in the group through 'Jacques Rober'. Immediately they had a decisive influence.

LVMH on its side took a 12 per cent interest in Guinness. The chips were down. Racamier had lost. To what extent he still did not know. He kept his composure and, a good loser, praised the 'excellent quality of Alain Chevalier's presentation'.[11]

The double error would not be long in bearing fruit. It would take only six months. On the Right Bank Bernard Arnault savoured this first advance into LVMH. The battle was to be his.

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1 The Vuitton family, essentially consisting of six people, owned 8 per cent of the capital in LVMH directly and 13 per cent via VIG.

2 See Chapter 5.

3 La Financière Agache, Bernard Arnault's group, had a five-year credit with the multi-option financing line opened on 1 December 1987, for 120 million euros, a little over 700 million francs. This multiple financing was principally arranged by Crédit Lyonnais, assisted by the American investment bank J. P. Morgan and managed by a group of eight international banks.

On 8 January 1988 Financière Agache issued 500 million francs of subordinate securities of unspecified duration.

4 On 20 May 1988 Financière Agache was to sell Boussac Saint-Frères to the Prouvost group. On 12 July 1989 Bernard Arnault would sell the Société Française de Lin to Christian Derveloy's group. Finally in October 1989 Arnault was to pull out entirely from the textile sector by transferring his 27 per cent investment in Lainière Holding to Christian Derveloy.

5 25 January 1988.

6 Transactions on LVMH shares had been steady since the beginning of the year.

—January: 435,000 shares (approx. 4 per cent of the capital)
—February: 385,000 shares (approx. 3 per cent of the capital)
—March: 221,000 shares (approx. 2 per cent of the capital)
—April: 178,000 shares (approx. 1 per cent of the capital)
—May: 494,000 shares (approx. 5 per cent of the capital)
—June: 1,200,000 shares (approx. 11 per cent of the capital)

7 At that time they were quoted at 2,500 francs.

8 Shares held for more than three years were entitled to two votes.

9 In December 1985 Guinness fought a stock-exchange battle against Argyll so as to buy out the spirits company Distillers (Johnny Walker). With higher and higher bids, Guinness ended up victorious thanks to a record take-over bid amounting to 2.53 billion pounds sterling (almost 27 billion francs). The brewer's offer comprised two sections: one part in cash and one part in the form of an exchange of Distillers shares for Guinness shares. In order to succeed in this the management team at Guinness organized a vast international operation aimed at preserving the Guinness share value on the stock market (the more the rate increased, the more tempting the Guinness offer became).

The arrest of Ivan Boesky, the well-known American arbitrageur who had been involved in this operation, brought to light the illegality of the deal. Since then heads have not ceased to roll. The chairman of Guinness, Ernest Saunders, had to resign, and the

company was fined approximately 2 billion francs. Anthony Tennant was called in to restore the ailing fortunes of the brewer.

10 The London office of Lazard's.

11 Henry Racamier's official communiqué, dated 8 July 1988.

9
THE TIME OF DOUBT

Fine rain fell on the wide-brimmed hats of the 2,000 guests at the Polo Festival in Paris. Alain Chevalier, in a light grey suit with a carnation in his buttonhole, was entertaining the Parisian social elite that Saturday, 17 September 1988, at the side of the Polo chairman, Christian de Fels. In eight days he would be chairman of the board of LVMH,[1] the most prestigious of the luxury groups into which Bernard Arnault, one of the rising stars in the world of finance, had made such a sensational entry at the beginning of the summer. It was 4 pm, drizzling, and Alain Chevalier was in a reflective mood. Was he at the peak of his career or was this the beginning of the end? At the time the financial drama was building up, this cultured, intuitive and brilliant industrialist was perhaps the first to ask himself the question.

All the protagonists were there: Henry Racamier, chairman of Louis Vuitton, Anthony Tennant, chairman of Guinness. The British aristocrat was taking his first steps in the Parisian social world thanks to his new alliance with Bernard Arnault.

5 pm. The person everyone was waiting for had still not arrived. The show began. At 5.30 pm, almost furtively, a shadow slipped into the front row of guests: Bernard Arnault. Beyond the obligatory polite small talk, the four protagonists, finally together for what was to become the luxury goods soap opera of the summer, seemed preoccupied. As if each one was trying to decipher the outcome in his own way.

Alain Chevalier wondered whether he had been right in playing the ‘Arnault card’. Henry Racamier wondered about the true intentions of Bernard Arnault and about the resources confronting him. Anthony Tennant, standing slightly apart, was observing and wondering what he was doing in this soap opera. Bernard Arnault, however, flanked by Marc Bohan and his Dior models, was in no doubt. He was at the peak of his glory. This summer was his.

For the proprietor of Dior the summer operation had gone much better than expected. His old dream of bringing together Dior Couture and Parfums Dior was taking shape. Now that he had a foot

in LVMH he could reap the benefit of his agreement with the chairman of Parfums Dior, Maurice Roger. Gone was the time when a virtual 'petrification' paralyzed all cooperation between the two companies. It was time to work hand in hand. It was no surprise that on 31 July he invited him to dine with the new director of Dior, Béatrice Bongibault, a determined and charming young blonde woman whom he had just enticed from Chanel with the task of building up a global network of boutiques. On the menu were the principal outlines of future cooperation between Parfums and Couture, but also a new project, the creation of 'Parfums Christian Lacroix.'[2]

Bernard Arnault felt all the more free to manoeuvre, as the day before he had marked up two more points in his conquest of LVMH. During the board meeting of 29 July he announced that he had increased his interest, which now reached a potential 27.2 per cent of the capital. Moreover, he was assured of at least one seat on the future board of the group. To follow up his attack he needed money. Before leaving on holiday he therefore reorganized part of his empire according to a well-tried technique in order to raise capital: a partial sale of the Dior capital. Until then Dior Couture was held 100 per cent through Boussac Saint-Frères. Immediately, he transformed Dior Couture into a holding company, allocated it his stake in LVMH and offered the capital of the holding company to private investors.

The idea was astute. Christian Dior was valued at around 9 billion.[3] The shares were 'sexy', more so than 'Jacques Rober' —a name still relatively unknown—could ever be. The investment was, however, more difficult than envisaged. Investors realized that it was more to their advantage to hold a direct interest in LVMH. But Arnault's loyal friends did not let him down. Crédit Lyonnais and M. M. Worms et Cie[4] firmly subscribed 500 million francs each, with the Japanese Nippon Life putting up the rest. The operation was completed. It brought in Bernard Arnault 3.3 billion francs. Enough to continue without having to depend on Guinness.

The hunting teams were parading on the damp lawn. Alain Chevalier was worried. Cohabitation with Henry Racamier had not always been peaceful, but the new shareholder frightened him. What were his real motives? The chairman of Moët-Hennessy had never really believed in the support of Bernard Arnault. As proof of

this he had been preparing the terms of an eventual departure since June. However, he tried to play the game. But the prospects for collaboration appeared more and more difficult.

The composition of the board worried him. He would have preferred a streamlined body. As things stood, he was to be the only manager at the head of a board of six people with the principal shareholders Bernard Arnault and Henry Racamier as vice-chairmen. His board risked strongly resembling a government coalition. Would it be able to avoid the 'rule of successive or alternating majorities'? Would he be able to get on with managing the business or would he be constantly forced to arbitrate between the various shareholders? His task was not easy.

His mistrust became all the greater when his long-time friend, one of the principal architects of the LV-MH merger, Bruno Roger, partner of Lazard's, apparently a victim of the fratricidal battle between the partners of the bank, stepped back from the LVMH portfolio. To the benefit of Antoine Bernheim, Bernard Arnault's mentor. Would Lazard's, his totally reliable consultants, always be on his side?

'Count, count your men, count them well.' Alain Chevalier remembered the well-known saying: could he count on the support of everyone in his own firm? He had been the first to encourage Maurice Roger to collaborate more closely with Dior. But the zeal of the Parfum's chairman had gone beyond his expectations. The breach opened on 8 September on the volcanic glaciers of Iceland. That was the day Maurice Roger was launching his new elixir for men, Fahrenheit, in an atmosphere of apparent festivity. In reality relations were so strained that Alain Chevalier and his managing director, Jean-Louis Masurel, preferred to go salmon fishing rather than take part in the picnic organized for the guests.

There remained Guinness, which Alain Chevalier had pushed into associating itself with Bernard Arnault, to balance out the new forces. The British company seemed devoid of any power. That autumn evening Anthony Tennant was ill at ease. Although the agreements of 8 July had allowed him to strengthen his position in LVMH, and notably in Moët-Hennessy, to which he was linked by way of a vital distribution agreement, could he really trust the alliance with Bernard Arnault?

Two nights (6 and 7 July) were a very short period in which to give birth to 'Jacques Rober'. The terms of the contract seemed

more and more ambiguous as the days went by. Had he perhaps been too naïve? And he remembered one of his banker's quips: 'Jacques Rober, that's JR, the anti-hero of the soap opera Dallas.'

For Bernard Arnault the agreements were clear: the two parties would be associated for at least three years in Jacques Rober with Bernard Arnault having a 60 per cent interest and Guinness a 40 per cent interest with the objective of acquiring 30 per cent of LVMH unless there were any unforeseen circumstances. Each partner was to refrain from any purchase outside this joint structure without prior dialogue. In other words, it was possible to amass shares providing the other partner had been informed but without waiting for a response.

The British were worried. Were there not two possible ways of looking at this? Was Arnault not in a position to purchase more easily than Guinness? What were 'unforeseen circumstances'? What would happen beyond the 30 per cent threshold? And, above all, if Guinness wanted to resell its investment before the expiry of the three-year period, it would only be compensated to the tune of 80 per cent of the share value.[5]

The 'largely interpretative' terms of the agreement reduced Anthony Tennant's room for manoeuvre. In his view, Arnault and his lawyer Godé were being very difficult, should he have mistrusted them more? And so Anthony Tennant increasingly asked to have the agreements revised, but Bernard Arnault turned a deaf ear. He tried to reassure Tennant with a seat on the future board, but he was not persuaded.

The rain had begun to fall over the polo at Bagatelle again. Henry Racamier felt he had been swindled. To be truthful his disquiet dated back to the famous agreement of 8 July. It was he who had gone to find Bernard Arnault and right up to the last moment the owner of Dior had assured him that he was with him. What the chairman of Louis Vuitton had dreamed of was the arrival of a docile capitalist sharing his vision of the luxury goods industry. It would allow him to prevent the intrusion of a foreign brewing company into the group. And then during July he realized that this capitalist had chosen the camp of the existing board, that of Alain Chevalier. Even worse: he had formed an association with Guinness, the company he had wanted to eliminate!

Henry Racamier began expressing his doubts. On 20 July he

started to prepare the ground for a new plan. ‘We must avoid separating, but we must find a different way of living and working together,’ declared the head of Louis Vuitton. He stressed the differences in enterprise cultures existing between spirits and luxury goods. ‘Champagne, even of the highest quality, is a mass-produced product. You can even find it in supermarkets,’[6] he observed, going so far as to propose the outline of a reconstruction. In other words, an increase in his direct interest in Louis Vuitton SA. This was to come to nothing.

However, there was one crumb of comfort. Henry Racamier had had the structural change into a board of directors and a supervisory board accepted by the board meeting on 29 July. This had long been the management style of Louis Vuitton, and of Veuve Clicquot since its acquisition. It allowed for a collegiate direction and a separation between the shareholders who supervised and a board which made the decisions.

Henry Racamier had spent the month of August negotiating a broadly based board of directors consisting of six or seven members, to the great displeasure of Alain Chevalier who ended up giving in. He wanted Michel Piétrini to be part of it, but Bernard Arnault was opposed to this. He also claimed the chairmanship of the supervisory board for his side and thought he had obtained it. Here again Bernard Arnault was to surprise him.

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1 Alain Chevalier was thus chairman of the LVMH board, but the structure of the company had to be changed the following week into a board and supervisory board.

2 Parfums Lacroix was to associate Parfums Christian Dior, the majority shareholder with almost 64 per cent, with Bernard Arnault’s company Financière Agache under the chairmanship of Maurice Roger.

3 A study by the brokerage company Cholet Dupont valued Christian Dior at 8.8 billion francs.

4 Through the intervention of Financière Truffaut.

5 The association between Guinness and Bernard Arnault in Jacques Rober allowed Guinness to obtain LVMH shares at a reduced rate as it benefited from Bernard Arnault’s purchases prior to the massive acquisitions at the beginning of July. In exchange for this Bernard Arnault had obtained the 80 per cent resale clause.

6 *Wall Street Journal,* 20 July 1988.

10
BERNARD ARNAULT SHOWS HIS HAND

In his sound-proofed office (rumour had it that he could not bear the metro which passed below the imposing Dior building in the Avenue Montaigne) Bernard Arnault, surrounded by his loyal followers Robert Léon and Pierre Godé, was taking stock of his position. On that Monday, 26 September 1988, he was going to cross the Seine to the first LVMH supervisory board meeting which was to elect the vice-chairman of the board of directors. Strengthened by his recent acquisitions he was preparing a lightning advance. The first in a series which within three months would give him absolute power.

The deals throughout the summer had involved changes in the statutes of the group. An extraordinary general meeting was planned for 22 September to this effect. Everything was settled, but this did not appear to satisfy the ambitions of Bernard Arnault.

He had therefore used the week preceding the general meeting to assure himself of a noteworthy entrance. On 13 September, to the surprise of all, dealing began again on the LVMH share, more strongly than ever. In one session the price increased 8.1 per cent to 3,170 francs, with over 4 per cent of the capital changing hands. The buyer? Bernard Arnault, of course, in a strong position with 3.3 billion francs, the lucrative proceeds of that summer's Dior operation. For his entourage this show of force was naturally justified as the necessary response to an offensive led by Henry Racamier, who had apparently bought around 2 per cent to reinforce the influence of the Vuitton clan.[1]

On 15 September a communiqué from Financière Agache revealed all: Jacques Rober held 32 per cent of the capital. Taking into account the equity warrant bonds at his disposal, its participation increased to 37.4 per cent after dilution, but Bernard Arnault was also approaching the blocking minority in terms of voting rights, which hitherto had only been held by the Vuitton clan. This show of force greatly displeased Anthony Tennant. As the

other partner in Jacques Rober he had been advised of the acquisitions at the last moment and had to give his consent in two hours. Rather short notice for an operation amounting to over 3 billion francs which he had to finance to the tune of 40 per cent!

11 am, Thursday 22 September. The Aiglon Room in the Intercontinental Hotel, Paris, was packed. 62.21 per cent of LVMH was represented—a high proportion. For the first time the allocation of voting rights to the various groups of shareholders was announced: 21.4 per cent for the Moët-Hennessy families (with 13 per cent of the capital), 29.9 per cent for the Vuitton families (with 24 per cent of the capital) and 25 per cent for the Arnault-Guinness team (with potentially 37.4 per cent of the capital). The balance of power was clear.

All the resolutions were adopted and the supervisory board was elected with no surprises. Each group of shareholders had four representatives. On the Arnault side: Jean Arnault (Bernard's father), Antoine Bernheim (Lazard's), Jean-Maxime Lévêque (Crédit Lyonnais), Nicholas Clive-Worms (M. M. Worms et Cie); on Vuitton's side: Henri-Louis Vuitton, André Battestini (Paribas), Michel François Poncet (Paribas) and Jean-Paul Parayre (the former chairman of Peugeot and adviser to Henry Racamier). Finally, representing Moët-Hennessy: Frédéric Chandon de Briailles (Moët et Chandon), Alain de Pracomtal (Hennessy), Bruno Roger (Lazard's) and Anthony Tennant (Guinness). The architects of the LV-MH merger (Lazard's and Paribas) were omnipresent.

Monday 26 September, 5 pm, Boulevard de la Tour-Maubourg. The supervisory board met to elect its chairman and board of directors. The principal motives behind the massive acquisitions by Bernard Arnault over the last fortnight were now clear. Henri-Louis Vuitton had to gain the chairmanship of the supervisory board as had been agreed at the beginning of September between the three partners Alain Chevalier, Bernard Arnault and Henry Racamier. But contrary to all expectations it was Jean Arnault who took the chair. From the start of his involvement Bernard Arnault had intended to rule the roost: he was now the principal shareholder, but it had cost him a great deal of money, and it was quite normal for his father to take over the chairmanship, all the more so as it was of symbolic value. In fact, the supervisory board did not make decisions, its role being

continually to monitor the board of directors' management of the company.

Disconcerted, Henri-Louis Vuitton nevertheless took the risk of upholding his candidacy. The families voted and kept silent. Had they not been linked by way of a moral contract since July? The Vuitton candidate votes were few. Henry Racamier, once again, thought he had been duped. His disillusionment was apparent: 'This does not correspond with what had been expected, but the decision has been taken, it cannot be reversed. It is a *de facto* situation we acknowledge and regret.' He had faced up to the bitter truth, but this time he really understood that Bernard Arnault was a sworn enemy. This certainty was to be the principal thread of his future conduct.

After this tense start to the meeting, the election of the board of directors took place as expected: Alain Chevalier (chairman), Bernard Arnault and Henry Racamier (vice-chairmen), Jean-Louis Masurel, Jean Ogliastro and Robert Léon. Everyone was in place for the finale.

This board of directors would meet only twice. Once to update advertising brochures; a derisory agenda. The other meeting was to finalize the purchase of Givenchy Couture. This merger of perfumes and couture represented a turbulent new episode in the cohabitation. Henry Racamier had wanted this regrouping ever since the purchase of Veuve Clicquot, which controlled Givenchy perfumes. Henry Racamier wished to take over Givenchy Couture. The negotiations had been long, with Hubert de Givenchy proving difficult over the terms of purchase and uncertain with regard to his real willingness to part with a company which he had created. After years of hesitation an agreement was finally reached in June 1988. Hubert de Givenchy provided couture which alone accounted for a little more than 10 per cent of the turnover of all of French *haute couture,* i.e., 2.5 billion francs, along with a positive balance sheet. A name which had always embodied elegance and refinement, Givenchy, which still had a large American clientele, was famous for having dressed Audrey Hepburn and Jacqueline Kennedy, and designing Princess Caroline of Monaco's first party frock.

Vuitton provided the perfumes. The business was highly profitable. Ever since Jean Courtière took charge of its destiny in 1982, sales had quadrupled to reach 700 million. This increase was essentially down to the success of the two most recent ventures,

Ysatis and Xéryus (60 per cent of turnover). But the high cost of the deal (225 million francs, excluding the fact that Hubert de Givenchy apparently obtained in his contract a guarantee that he would be able to maintain his lifestyle at the expense of Louis Vuitton) exasperated Bernard Arnault and Alain Chevalier. They did everything they could to oppose the deal, but without success. However, as they made clear, from now it would all be different, all acquisitions would have to go through them.

At the beginning of autumn Alain Chevalier was starting to be seriously irritated. He had realized that the merger was a failure. So, during a trip to the United States to present the group to a new shareholder, he opened up to Bernard Arnault. He would never be able to get on with Henry Racamier. Maybe the terms of the LVMH merger could be reviewed, and a move could be made towards a separation of Moët-Hennessy and Louis Vuitton under the aegis of a financial holding company. Bernard Arnault refused categorically. He said he was there to preserve the integrity of the group, and would do so at any price.

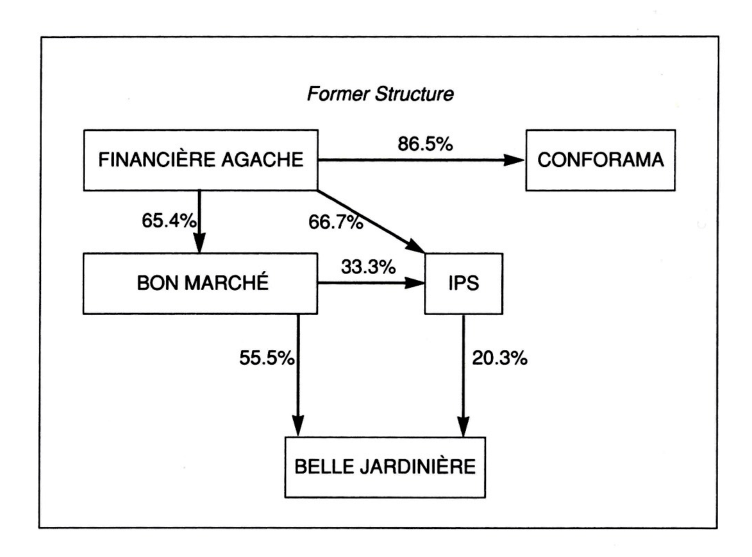
This divergence was more serious than it appeared. From then on Alain Chevalier no longer felt bound. He had made his views clear. Bernard Arnault scarcely paid any attention to him. He had other things to worry about: strengthening his funds which had been depleted by the acquisitions during September. This he was to do through Bon Marché.

On Wednesday 26 October Bernard Arnault chose the general meeting of his key company (Financière Agache) to lay his cards on the table. Now that he held the blocking minority in LVMH, he was going to restructure his distribution group (Bon Marché, Belle Jardinière, Conforama) obtained in the Boussac legacy into a clear structure with the intention of raising capital. The plan was as follows: Bon Marché would become the parent company of Conforama owning 86.5 per cent of the capital, and would strengthen its interest in Belle Jardinière to 75.7 per cent.[2]

At the end of the operation (see Table 2) the group brought together major fixed assets (approximately 100,000 square metres for Bon Marché alone) and an important distribution capability. It represented almost 300 million francs of net profits in 1988 for a business turnover of over 7 billion francs. This setup was to allow Bernard Arnault to call on the market under good conditions. Indeed he intended to proceed with an increase in capital

amounting to 2.4 billion francs, a sum which was to be reinvested in Christian Dior.

Table 2
RESTRUCTURING OF BON MARCHÉ



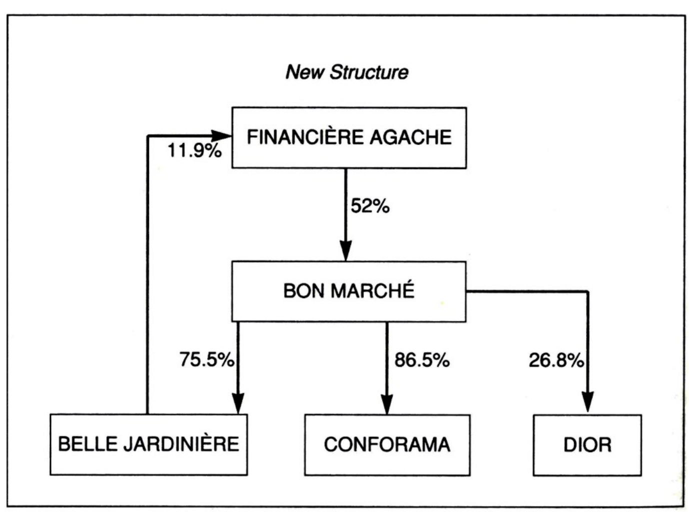


Table 2: Restructuring of Bon Marché

This technique, although complex, was a technique he had perfected. This was the fourth time he had used it: a year before he had introduced Conforama onto the secondary market, then the holding company Arnault et Associés in which the family only retained a 60 per cent interest. He had just hived off 42 per cent of the capital of Dior by way of private investors to find 3.3 billion francs to allow him to pursue his purchases of LVMH shares. The principle was simple: 1) he bought the companies, 2) he boosted their fortunes, 3) he could then raise capital in order to move on to new acquisitions.

Only the new structuring of Bon Marché did not go easily. The methods which had initially caused astonishment, then admiration ended up by irritating. Buying Boussac which was making a loss was fine. Restructuring it to make it into a luxury group was understandable, and entering into the LVMH in force and becoming the principal shareholder in three months was astounding. But wanting to continue was too much. How far did Bernard Arnault intend to go?

The analysts looked more closely at the new setup and queried it. They pointed out anomalies: was the value of Bon Marché shares not slightly less than the valuations? How was this possible? Had the Bon Marché assets not been undervalued?

Sure of their facts, the minority shareholders organized themselves in order to postpone the Bon Marché board meeting during the course of which the plan had to be voted on. On 6 December they brought an emergency interim action to postpone the board meeting set for 8 December. They were nonsuited, appealed and were again nonsuited.

Bernard Arnault considered this to be blackmail on the part of recent shareholders specializing in this form of attack to make a quick profit. The board meeting promised to be turbulent.

Thursday 8 December, 5 pm, Maison de la Chimie in Paris. A record attendance for this type of meeting—no less than 150 people, whose average age was 70. ‘Nothing odd about that, it’s the only meeting in Paris at which the shareholders draw a director’s fee, 20 francs each,’ said one of the shareholders. Some of those around him seemed determined not to let themselves be pushed around. Philippe Vindry, chairman of Bon Marché, ascended the rostrum. Around him were representatives, scrutineers, legal directors.

Bernard Arnault was absent.

The meeting opened with a rather tedious reading of various legal reports, difficult to follow in their complexity. An hour and a half later Philippe Vindry took things in hand. He gave a clear summary, illustrated with slides, of what had just been said. His argument was that the plan was aimed at building a powerful group around Bon Marché, bringing together the activities of Bon Marché, Belle Jardinière and Conforama. It would allow a joint strategy to be developed and the turnover to be increased by more than 30 per cent in five years.

The shareholders should not complain. Their investments would no longer be in a single Paris store, but would be in diversified activities. Their value would be guaranteed by 'growth in the luxury goods industry, fixed asset security and the stability of the distribution sector. At the end of the operation the shares would be among the top fifty on the stock market,' concluded Philippe Vindry emphatically. 'Bon Marché is moving into the big time.'

7 pm—time for questions. The opponents could not make the tension increase. 'There is a flagrant underestimation of real estate patrimony,' claimed a woman supported by a shareholder who wanted to know how and by whom the fixed assets had been assessed.

By an expert, François Paulhac, who was not part of the group and who had been 'recommended' by the auditors, replied Philippe Vindry.

François Paulhac himself commented on his report. Neither Bon Marché nor Belle Jardinière were in what was termed the 'golden triangle' in which prices were rocketing, he said. Furthermore a distinction had to be made between leased offices, sales areas and 'reserved' areas (basements, car parking). He gave his estimate: for Bon Marché, 542 million for 'unused' premises, to which should be added 884 million for premises 'occupied through use', i.e., between 18,000 and 25,000 francs per square metre in the 7th *arrondissement*. For Belle Jardinière, 481 million francs, i.e., between 15,000 and 20,000 francs per square metre alongside the Seine. This was a low valuation for those who knew Paris prices. Nevertheless, nobody turned a hair.

Once again the plan had been impeccably presented, unless the shareholders had not understood anything. In any event there were only some 7,000 votes out of several million against the Arnault

plan.



Bernard Arnault and his sister on his third birthday.

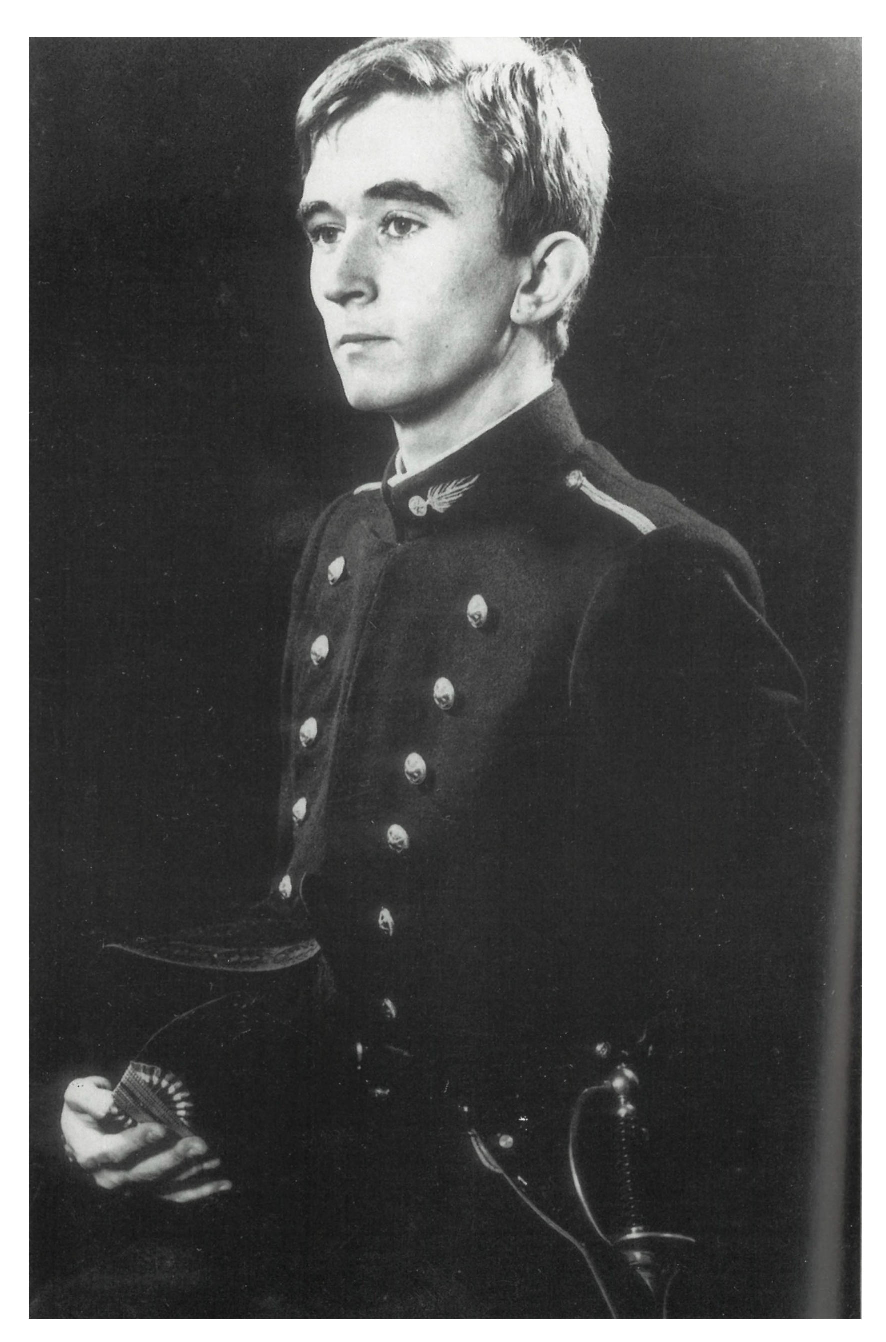


Left: His grandparents were very close to him, especially his grandmother. Right: Bernard Arnault aged six. He still has the same slightly lingering gait.





Top: Arnault's passion for sport. He rode competitively from the age of sixteen. Bottom: Arnault says that today he only smokes in situations of great stress. This does not seem to have been the case at secondary school in the 1960s.



A family's pride and joy. A son at the Ecole Polytechnique.



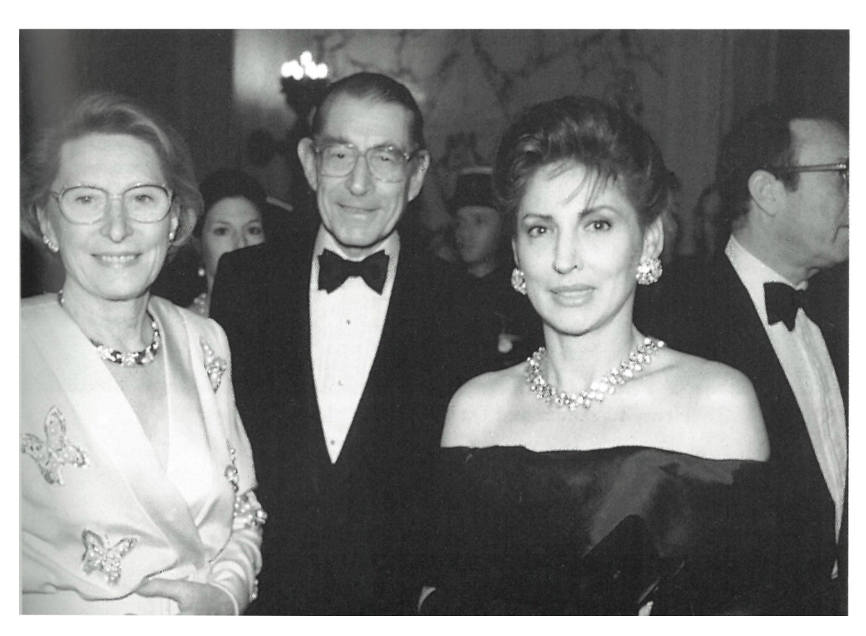
Arnault presides at the launch of the new Christian Lacroix perfume 'C'est la vie', 21 January 1990. From right to left: Maurice Roger, Bernard Arnault, Princess Wittgenstein, Christian Lacroix and two models.



Left: Henry Racamier, the well-behaved schoolboy in 1917. Right: A passion for sailing before sponsoring the America's Cup. Bottom: The world of Vuitton—the alliance of fine luggage and

fine champagne.





30 March 1989: both camps are to be found avoiding each other at a dinner organized by the Comité Colbert to promote the French luxury industry at the Metropolitan Club in New York.



Henry Racamier and David de Rothschild, his banker.

Alain Gugenheim could not conceal his disappointment: ‘The small shareholders are being swallowed up and are quite happy,’ he was to say. ‘The only thing they’re interested in is keeping the 5 per cent discount on Bon Marché purchases their ten shares entitle them to.’

Bernard Arnault had won once again. But for the first time attacks on him were becoming virulent. Had not the newspaper *Liberation* dubbed him ‘Arnault, the Machiavelli of finance’.[3]

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1 The Vuitton clan thus increased its interest to around 24 per cent.

2 Technically the operation was fairly complicated: initially Financière Agache would provide IPS (a non-quoted subsidiary of Financière Agache and Bon Marché) with its 86.5 per cent interest in Conforama; Bon Marché would then absorb IPS. This setup combined with a highly conservative assessment of fixed assets assured Bernard Arnault of control of around 90 per cent of the new group before the increase in capital. This was important as Bernard Arnault was not to subscribe to the increase in capital. In this way he would be able to raise 2.4 billion francs on the market while still keeping control of Bon Marché with 52 per cent of the capital.

3 *Liberation* 4 November 1988.

11

THE CONQUEST

'This cannot go on any longer. Vuitton is the subsidiary of LVMH. You are its chairman. Try to find out what is going on in the company. Make Henry Racamier toe the line.'

'You are making a mistake. You won't manage it.'

'Try, all the same.'

'It's not my problem. You're a shareholder, so is he, but I'm not.'

Bernard Arnault wanted to get rid of Henry Racamier, and he realized he could no longer rely on Alain Chevalier to do it. Henry Racamier sensed danger and turned to his old acquaintances, both senior partners at the banks of their name, Jean-Philippe Hottinguer and David de Rothschild who had negotiated the Veuve Clicquot deal with Paribas in the past. Together, and in the spirit of the agreements they reached earlier that summer, they looked into a structural arrangement which would give each of the enterprises more autonomy.

Henry Racamier wanted to reduce the influence of the principal holding, LVMH, in the various subsidiaries: Louis Vuitton, Moët-Hennessy and Parfums Dior (LVMH held 100 per cent of the capital in these companies). He advocated increasing the holdings of the families in their respective companies, i.e., the Vuittons in Louis-Vuitton, the Moëts and Hennessys supported by Guinness in Moët-Hennessy, against a reduction in the influence at LVMH level. Parfums Dior would be reunited with Dior Couture. From that point on LVMH would only be a talking shop, everyone would go back to their own companies, and Arnault would be left with Dior.

By way of this reconstruction, Racamier was seeking to regain full power at Louis Vuitton, an increasingly difficult proposition as Bernard Arnault's power grew. He would therefore have to act quickly, before it was too late.

On 14 December Henry Racamier presented his plan to Bernard Arnault and sent a copy to each of the other shareholders. Alain Chevalier saw this plan as a way out of his difficulties. It would allow him to return to the time when he managed his business with no worries. His support would nevertheless be passive. In contrast,

his managing director, Jean-Louis Masurel, actively supported Racamier's plan.

The families, who were behind the times, were probably tempted for a moment: this reconstruction would put an end to their strained relationship with Henry Racamier, the traitor who had introduced Bernard Arnault and thereby risked ousting them. Frédéric Chandon de Briailles was, however, to say later on: 'By wanting to take their ball back Alain Chevalier and Henry Racamier made a mistake. I was against this plan. First of all it would have been a bad deal for the shareholders and secondly the British would have become predominant in the alcohol sector.'

Anthony Tennant saw a way out of his problems in Racamier's proposition. He would be rid of Bernard Arnault and the influence of Guinness in the spirits sector would be strengthened. Since September Tennant's rancour had been steadily growing. 'Does our gentlemen's agreement still stand?' he wondered. His reading of the Jacques Rober agreements was far from that of the chairman of Dior, whom he accused of a flagrant lack of dialogue. Furthermore, when he asked for a review of the contract Bernard Arnault turned a deaf ear.

For the 'petit prince' of the Avenue Montaigne, Henry Racamier's open foray constituted an excellent pretext to attack. His first reaction was apparently not to pay any attention to it. 'It's just the latest in a long line of Monsieur Racamier's plans.'

But Henry Racamier continued his attack, alone, by proposing to buy Louis Vuitton for 18 billion francs. This time Arnault changed his mind and denounced the dismantlement of the luxury multinational which had to be 'defended' at all costs.

Jean-Louis Masurel did not see things in that light. Racamier's plan was acceptable. Arnault's attitude could only be interpreted as a declaration of war. He began making arrangements. He organized a meeting between Alain Chevalier and Gérard Eskénazi, the chairman of Pargesa (a Swiss holding company controlled by Belgian financier Albert Frère), to study the possibilities of eliminating Bernard Arnault—a management buyout. The LVMH management also called in the BNP. Rene Thomas, the chairman of the nationalized bank, jumped at the chance. It was the ideal way of replacing Crédit Lyonnais in this group. Negotiations began at the Moët-Hennessy headquarters, which had been transformed into a war cabinet for the occasion.

The financial analysts were charged with assessing the luxury goods group so as to calculate the cost of a possible stock-market deal. Meanwhile directors were left in Paris. In the runup to Christmas they all went on holiday. Anthony Tennant found refuge in the English countryside, the others went skiing—Alain Chevalier in Mègeve, Henry Racamier in Verbier, and Bernard Arnault in Courcheval.

At the end of December the shares began to move again. Anthony Tennant sent an exasperated letter to Bernard Arnault. The Guinness chairman repeated all his grievances. He wanted an immediate review of the Jacques Rober agreements. In reality he wanted more than simple clarification of the terms of the agreement. He wanted to increase his share to 50 per cent and to obtain a right of veto on future purchases of shares and in important LVMH decisions.

Bernard Arnault took the threat seriously. He began to worry about the constant comings and goings at the Avenue Hoche. Something was happening. Was a take-over bid being prepared? At any moment Guinness could side with the 'others' who thought they could count on his support. Bernard Arnault was aware of this. Suspense. He had good reason to be mistrustful. A take-over plan was indeed being studied.

On 29 December the 'others' met at the Avenue Hoche. The assessments had been made. A take-over bid for LVMH would cost between 60 and 70 billion francs. Too expensive, thought the bankers. Tennant agreed with their view and hid behind his board of directors so as not to appear to be abandoning Masurel and Chevalier. He would use this fictitious take-over bid as a bargaining counter in future negotiations with Arnault.

For Racamier, too, the take-over bid was too expensive. He had already exhausted his financial possibilities. Paribas, which had financed VIG's acquisitions through short-term credits, was increasing the pressure to have its loans repaid. The chairman of Vuitton could not therefore launch such a costly operation. Only Masurel persisted, believing he could rally Guinness whose support was indispensable.

Returning from his holiday Bernard Arnault was surprised to have heard no news of Alain Chevalier. Why this silence? On Monday 2

January 1989 movements on the shares intensified. Who was buying? Everyone was watching and suspecting everyone else. The most persistent rumours revolved around Guinness or Bernard Arnault. They all denied it.

That same Monday everyone involved in LVMH was invited for New Year celebrations. Everyone except Bernard Arnault, who was not invited. He was astounded. Something was going on. Chevalier had said he would call him after Christmas, but he had not yet done so. On 3 January—still nothing. On 4 January the telephone eventually rang. It was Chevalier. He would come for breakfast the next day.

On Thursday 5 January at 8.30 am Bernard Arnault and Pierre Godé received the chairman of LVMH. The atmosphere was tense in the small dining-room on the fourth floor at Dior.

'Whatever happens, I would like you to know that I have great respect for you,' declared Alain Chevalier immediately.

'The feeling's mutual,' replied Bernard Arnault.

'I have tried everything but can do no more. What will happen will happen. But I want you to be aware of the respect and friendship I have for you.'

The mini croissants remained intact on the plates and the coffee was cold. Chevalier smoked one Rothman's after another. The tone was both polite and icy. When, at 9.15 am, Arnault and Godé accompanied Chevalier out again they had understood that an imminent operation was being prepared against them. They monitored the opening of the stock exchange. The manoeuvre was obvious. They decided to intervene to catch everyone on the hop. At 1 pm Arnault attacked.

At 3 pm Bernard Mirat, the secretary-general of the SBF (Société des Bourses Françaises), received a telephone call from London asking him to suspend trading in LVMH shares. Mirat refused. 'Suspension can only take place if I'm apprised of a formal takeover bid,' he replied.

At 4 pm a communiqué signed LVMH but sent by neither Henry Racamier nor Bernard Arnault arrived on the teleprinters announcing forecasts of exceptional growth in the group results.[1] Bernard Arnault and his father immediately sent three angry telexes to the management of LVMH. What was the reason for this unexpected announcement? Was it to suggest that those who had been buying since 1 pm had been guilty of insider dealing, or was it

to force the share value up?

The shares soared to 4,720 francs, a record level. Faced with this explosion in the price, Henry Racamier, a good financier, lightened his portfolio of LVMH shares. Eighty thousand shares were sold. The yield would serve to repay the Paribas credits. It was a twist of fate that his package of shares would strengthen the influence of his rival. Bernard Arnault continued buying. In two sessions (5 and 6 January) he managed to buy up 800,000 shares, i.e., 8 per cent of the LVMH capital.

Friday 6 January, 6 pm. An LVMH board meeting was called. In the corridor Alain Chevalier met Bernard Arnault. A good sport, he told him: 'I've played, I've lost, I'm resigning.' Did Arnault try to keep him on, as Antoine Bernheim had advised? Chevalier's weariness would be the deciding factor. He was all the more determined as he knew he would not leave empty-handed. He initiated an arbitration procedure to be certain of obtaining his due for his twenty years with Moët-Hennessy—20 million francs.

The next day Alain de Pracomtal declared on radio that Bernard Arnault should maintain the price so that the other shareholders in LVMH could benefit from the excellent levels at which he had made his acquisitions. He also let it be known that control of the luxury goods group had well and truly changed hands. He was to change his mind.

At the beginning of January Anthony Tennant's patience ran out. Once again Bernard Arnault had made acquisitions without waiting for his go-ahead. And so, in a new letter he threatened legal action. Bernard Arnault had incurred the wrath of all the partners in LVMH. But from now on he had 39.6 per cent of the capital and 43.5 per cent when diluted (once the warrants are converted into shares). He was master of the situation. All he had to do now was soothe the malcontents to grasp the reins of power. This would take him a single day.

The (forced) seduction operation began on 12 January, the day having the rhythm of a boxing match.

Round one. In the morning the future chairman of LVMH convinced a shell-shocked Henry Racamier that he had no alternative but to support him.

Round two. At lunch he obtained the support of the Moët and Hennessy families from Alain de Pracomtal, a task made all the easier as they had no choice.

Round three was the most difficult—dinner with Anthony Tennant. It was a closely fought affair but Bernard Arnault had a considerable advantage: the legal embarrassment surrounding the Guinness scandal still made the British position fragile.

And so it was that at 5 o'clock in the morning he reached an agreement. Anthony Tennant gained a seat on the new LVMH board and increased his holding in Jacques Rober to 45 per cent. 'A concession,' said Bernard Arnault; 'A joke,' commented his detractors ironically: 'Arnault has found 45 per cent of his own financing.' But Arnault kept what was essential for himself, the Guinness opt-out clause. If in July 1991 the British brewer wanted to sell its shares, it would only receive 80 per cent of their value.

The same day Chevalier officially tendered his resignation. He had chosen the offices of Publicis, the advertising agency, for his farewell, unless, that is, he had been forced to do so. In front of about ten journalists he modestly drew the lessons from cohabitation with Henry Racamier and Bernard Arnault. Disenchanted, he justified his position: 'With my departure, problems between shareholders should be simplified.' He refused to indulge in polemics. And when the representative of the *Wall Street Journal* asked him about the exact date on which he had decided to resign, he replied, not without humour: 'It's like a divorce. You cannot tell on which day you decide.' Chevalier had shied away. He was far too delicate to battle out the storms. He had always recognized this: 'I have always felt a certain inability to be completely concerned. Perhaps because in a choice between power and liberty I chose liberty.'[2] He loathed quarrels. This is why he had avoided a political career, in which only killers survive. In 1986 when Giscard offered him the industry portfolio in the Chirac government, he refused. 'I asked for 24 hours to consider it. That evening I went to the cinema to see the Japanese film *Ran*. The principal character, prosperous at the start, ended up impoverished and abandoned because of an error of judgement. I thought at the time that this was answer from above, and I refused the industry portfolio,' he recounted later.

His departure was emotional. The next day the press unanimously praised the brilliant career of the man who in eighteen years had transformed a few family businesses into a luxury goods multinational. A 'manager more than a money man', ran the headline on him in *Le Quotidien*.

The man who had caused his departure was becoming more and more a source of disquiet. However, Bernard Arnault had won. Six months had been enough for him to reach the helm of the most expensive concern in France. The following day he would be sworn in as chairman of LVMH (see Table 3).

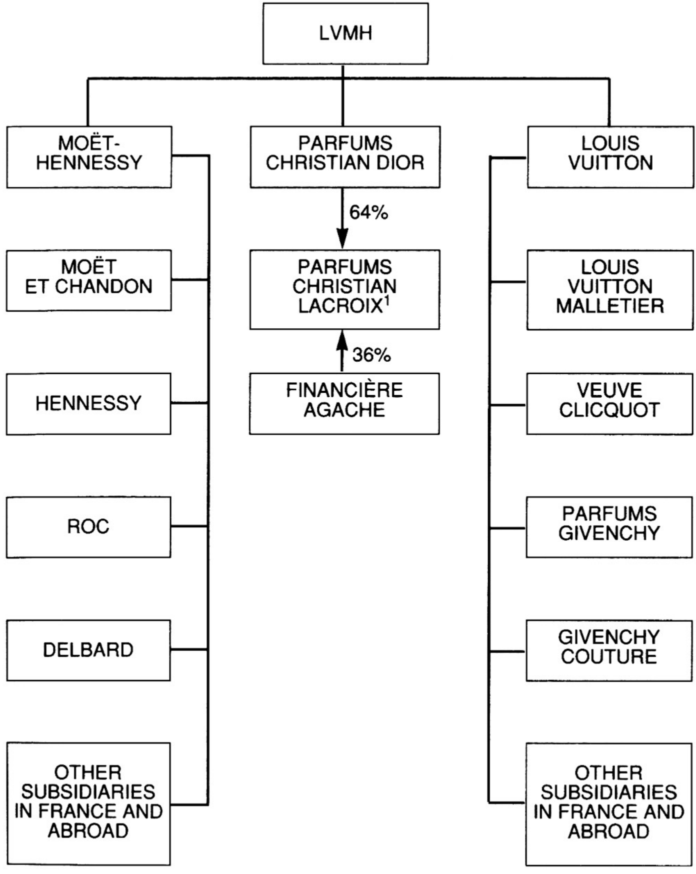


Table 3: Structural diagram of LVMH activities

1 The communiqué set out an estimated increase of 23 per cent in business turnover to 16.3 billion francs and a growth in profits of 50 per cent to 2 billion francs.
2 *Nouvel Observateur,* 4-10 July 1986.

12

THE TERROR

‘I am the boss. I shall be here on Monday morning and I shall be running the company in person. There will be no power vacuum. From now on I shall supervise group communications.’

Loose tongues had been warned! The cacophony in which LVMH had lived for more than six months was good reason, it was true, for centralized and harmonized communications. But that Bernard Arnault should mention the matter during his first address at the Avenue Hoche on that 13 January, an hour after having been unanimously elected chairman of LVHM, nobody seemed to understand.

For him this was an important decision. He had personally checked the contents of the press releases announcing the departure of Alain Chevalier and his own nomination to the head of the group. He needed to assert himself *vis-à-vis* the others as well as himself, fearing a harsh reaction to his success. Technically his rise had been faultless, but he realized that in human terms it had been brutal and aggressive. He had had no choice. Faced with a plot to dismantle the group he had had to intervene at any price, which he had done. Now he had to deal with the aftermath, and let it be known that the group was managed by a single person.

The Moët-Hennessy executives were worried. The new master’s style was the very antithesis of that of Alain Chevalier, who had never needed to assert himself. His authority had been taken for granted. He had paid no attention to public relations. It had taken the union with Louis Vuitton for Chevalier to set up a public relations unit.

Only a year before, Moët was only talked about during Formula 1 Grands-Prix. The group image was closely associated with celebration and victory. All this was now over. The Bernard Arnault version of Moët-Hennessy would be austere. From now on everyone would have to tread carefully.

The 10,000 or so executives and employees were initially dubious, especially those indebted to Alain Chevalier. They realized they were no longer under the protective wing of the former

chairman. The newcomer frightened them. Perhaps they were hoping for a *faux pas?* But for the time being they had to suffer in silence, all the more so as their feelings were not shared by everyone. In the corridors and offices suspicion was the order of the day. People were watching each other. In the local restaurants one took care not to be seen with colleagues too closely associated with the old management.

People no longer spoke to each other. Prudence and fear entrenched the group's executive in their original firms. Moët et Chandon's in Epernay, Hennessy's in Cognac and Parfums Dior's in Orleans. As for the Moët and Hennessy families, they caved in. Did they have a choice? They thought not. A large number of descendants of the traditional shareholders in the company worked in the subsidiaries. They had always been intelligent enough to rely on the manager. This had been the case with Alain Chevalier. The new chairman had clearly disconcerted them. They were shocked by his methods, which stood in stark contrast to traditional company practices. But they gave him the benefit of the doubt. For the moment they watched and played along with him.

They justified themselves to those close to them. In the greatest of secrecy the continued survival of the companies founded by their forefathers had to be guaranteed. Bernard Arnault said he wanted to make LVMH the biggest luxury goods group. Perhaps this challenge was worth attempting. The families were aware of their lack of room for manoeuvre. All they wanted was peace like before. At Louis Vuitton, Bernard Arnault's message was seen differently.

At the Rue La Boétie, in the large conference room, Henry Racamier, surrounded by about twenty others, was listening carefully to the report from his emissary, Christine Fontanet. Concerned by Bernard Arnault's words, the press secretary at Louis Vuitton reported the events of the morning in the greatest detail. The new chairman of LVMH had terrified her. She was all the more disturbed as she was utterly devoted to her boss Henry Racamier. The management of Louis Vuitton was perplexed by her impassioned account. The chairman of the various subsidiaries, as well as some of the executives present, were watching Henry Racamier. Nobody could guess what he was thinking.

With an impassive expression, staring through his horn-rimmed glasses, Racamier sympathized with his entourage. But it would take more than this to demoralize him. His disappointment at the

beginning of January had only lasted the space of a dinner with a close friend, Michel Missoffe. Today he was more determined than ever. If he had to fight, he would fight to the end. He would not let this youngster, whom he had imprudently introduced into the group, take from him his company, his wife's company, that of his in-laws, a company it had taken ten years to rebuild.

Henry Racamier had decoded the message of the LVMH chairman. He understood that from now on the battle had moved to the field of communications. The aggressiveness of the young man would serve him as a pretext. He would appear to play along with Arnault, but in reality he was beginning to orchestrate his resistance.

The situation suited him. The chairman of Louis Vuitton liked putting people on the wrong track, it was in his nature. When he took a taxi he always got out a few doors away from his final destination. He was in the habit of reserving tables at various restaurants under different names, but never his own, so as to be able to choose freely at the last minute where he felt like spending the evening. Some said it was atavistic. At all events, Henry Racamier always took a malicious pleasure in sowing the seeds of doubt.

At the beginning of January a marvellous opportunity arose for the chairman of Vuitton which was to allow him to deploy all his guile against Bernard Arnault. Racamier was going to redouble his efforts and ingenuity to catch his adversary out. The Rue La Boétie would remain his official headquarters, but his war cabinet would be in the Champs-Elysées, in the Vuitton family building where receptions were held for friends and close associates.

On the sixth floor of no. 70 Avenue des Champs-Elysées, Racamier organized his meetings behind the scenes. When he agreed to meet or talk to a few privileged people, he would show them into the ultimate in Vuitton decor—his lair, which reflected to perfection the Vuitton philosophy: a few trunks, travel photographs, fawn colours, a smell of leather and, of course, a glass of Veuve Clicquot for guests and a glass of Tio Pépé for the master.

In the outdated decor he charmed his visitors by talking about Louis Vuitton and explained his concern to make it a name apart: 'The magic formula has not been easy to perfect. There is often a tendency to accept the expedient. If we had not stood firm at the

helm Louis Vuitton would have become a larger version of Lancel.' He justified himself by saying: 'The merger was intended to balance out the risks. The strategy had already begun with the acquisition of Veuve Clicquot. But the graft with Moët hasn't taken.'

The chairman of Vuitton recognized his mistake. He had been wrong about Bernard Arnault. He said he had had a premonition: 'When I signed the alliance pact with him in June 1988 I held out my hand. It was like holding a limp rag. I felt a gut reaction telling me I had been wrong. But the die was cast. Afterwards I rationalized it.' Today he missed Alain Chevalier, with whom relations might not have been so difficult, after all. A touching piece of nostalgia.

Henry Racamier was disconcerting. He had the knack of being able to strike the right note with people. He excelled in the art of making them share his own interpretation of facts, his reading of history. He convinced his guests with considerable flair. His mastery of human relations, and all the charm he was able to muster when he had to, helped him to persuade those he was talking to of his good faith in the affair. But his words went well beyond a simple analysis of the past. He was describing a climate almost of terror, a veritable psychosis.

Racamier was certain that his telephone was being tapped, especially as he was convinced that bugging the lines was child's play. All that was needed was to find the right person at the right time and with technical progress it would be undetectable. Later, his staff would start their telephone conversations with a 'Hail Mary' and at the end of the prayer added, 'To Hell with the eavesdroppers.' He suspected Arnault of having him followed and watched in his every movement. The concierge of the Champs-Elysées building was surprised by the presence of people spending hours sitting on a bench opposite every day in the middle of winter. Weren't they perhaps private detectives hired to spy on Racamier's comings and goings? At Vuitton they were convinced of it. Such suspicions were shared by others in the entourage, and also by other protagonists not quite so intimately involved in the LVMH affair. Did not two bankers, who had perhaps read too many detective novels, go so far as to affirm having received threats?

The mistrust inspired by the young chairman of LVMH increased daily. Bernard Arnault paid no attention. He considered Racamier to be paranoid. The anxiety of the 12,000 people he managed

scarcely moved him. This would pass. He was the boss. Was it not normal for him to decide and be listened to?

Abroad he was well known. At the age of forty, Bernard Arnault made the front cover of *Fortune,* the prestigious business journal. The ultimate accolade. For the Americans he was in the same vein as the Italians Carlo De Benedetti and Raul Gardini. Across the Atlantic they were amazed by this person who presided over the destiny of so many luxury brands, the only area in which French products could not be competed with. For Arnault had understood before anyone else that it was a true industry. To his friends who said he was in love with the luxury goods industry, Bernard Arnault replied, 'Not at all. You can't explain love. My relationship to luxury goods is really very rational. It is the only area in which it is possible to make luxury profit margins.'

It was now time to learn the various trades of his conglomerate. When he began in July he had counted on Chevalier and Racamier to initiate him into the various activities of the group: wines and spirits and leather goods. He had not had time to worry about them. From now on, though, he had plenty of time to do so. He was the sole master. Everyone went along with him. Not for one second was he aware of the magnitude of the discreet and silent resistance Henry Racamier was organizing.

He was scarcely more concerned when the COB (the French stock exchange watchdog) decided to investigate the affair and opened an enquiry into the acquisitions of 5 and 6 January 1989 which led to his chairmanship. Indeed did not the stock exchange watchdog play down its task by declaring: 'We open ten or so such enquiries every year. Little is said about them, and more often than not they do not reveal any irregularities.'[1]

Arnault underestimated the latent hostility of his surroundings. The establishment would not forgive him for the departure of Chevalier, and his managers and employees were angry with him for what they perceived as his brutality and aggressiveness. Henry Racamier considered him a traitor. As for Tennant, after the Guinness affair he was anxious not to become involved in another stock-exchange scandal. Nevertheless, the day Robert Léon met Henry Racamier and Maître Jean Loyrette leaving together in the corridor at the COB, Arnault began asking himself why Loyrette, Alain Chevalier's former lawyer, was with the chairman of Vuitton. Was there a chance that Henry Racamier's malicious zeal might

give this routine enquiry something to get its teeth into?

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1 COB communiqué, 17 January 1989.

13

ARNAULT POSITIONS HIS MEN

On Sunday 12 February 1989 France was in turmoil. Financial and public scandals were breaking out everywhere: a raid on Société Générale, the third largest bank in France, had been orchestrated by a group of financiers with government backing; the French president's entourage had been involved in insider trading, during the acquisition of the American packaging company Triangle by the French state-owned stainless-steel producer Pechiney. Senior civil servants were implicated; Alain Boublil, chief adviser to the chancellor of economics and finance had resigned. The situation was delicate—enough for the President of the Republic to speak to the country. He chose television. Questioned on these affairs, he said that scandals were not only reserved for public enterprises and the state. What about the LVMH scandal in the private sector, among others?

The journalist interviewing the President did not pick up the allusion. However, Henry Racamier, who was listening, jumped at the opportunity. Two days later, on Tuesday 14 February, he declared to Agence France Presse: 'It would be desirable for the COB report on LVMH to be made public in the same way as it was for Pechiney,' stating that 'one of the questions apparently posed by the COB is whether there should have been a take-over bid or tender offer following the change in control'. He asked that everything be made totally clear. What could be more natural?

At the Avenue Hoche, the dispatch reached the offices of Bernard Arnault and Pierre Godé. They paled: another attack by Henry Racamier. 'A villainous and skilful manoeuvre,' thought Bernard Arnault, who was aware of the suspicion such a declaration would result in given the current climate.

Pierre Godé was staggered. That same morning during the chairmen's meeting which regularly brought together the managers of the subsidiaries, Henry Racamier had affirmed with the greatest aplomb: 'What a good thing that there is no longer any divergence

in communications in the group, how nice not to have to speak to each other via the media.' 'Henry Racamier took me completely aback with his avuncular smile,' thought Pierre Godé.

This was a decisive incident. The battle had begun again. Henry Racamier's apparently sympathetic attitude over the past days was merely a façade. He would never remain silent. Bernard Arnault had underestimated his vice-chairman.

During the first LVMH board meeting the new chairman had added to the agenda the need for common communication, provided by himself, for all the group's subsidiaries. The chairman of Vuitton had raised no objections. Then, in the name of clarity, he had demanded that all the subsidiaries should have the same statute: that of a *société anonyme* with an administrative council, the same management formula as Moët et Chandon and Hennessy. In reality the measure only affected Vuitton which was run by a board. Bernard Arnault knew how hard such a decision would hit Henry Racamier who was particularly attached to this formula. He had therefore not been astonished when the chairman of Vuitton had refused to vote on such a resolution and left the board declaring, 'I will let you know my position in a few days time.' 'He will knuckle under in the end,' thought Bernard Arnault.

Long and laborious negotiations took place over the telephone. Bernard Arnault conceded the board but in return obtained places for his men at Louis Vuitton. Was this not essential? On 8 February the Vuitton supervisory board elected a board for four years consisting of three newcomers from the Arnault clan: Pierre Godé, Robert Léon and Guy de la Serre, and four 'stalwarts' of the Vuitton clan: Henry Racamier, Jean Ogliastro, Michel Missoffe and André Sacau.

Bernard Arnault believed he had won. As chairman of LVMH, he now had the right to scrutinize the accounts of the turbulent subsidiary. He had succeeded where Alain Chevalier had failed: in making Henry Racamier toe the line.

On 14 February, when he received the news from AFP: Bernard Arnault realized his mistake. Initially rocked, Racamier had played along just long enough to draw breath. But he had no intention of being pushed around. He was at home at Vuitton, nobody would silence him. He had therefore seized on the declaration by the President of the Republic to show that he would not capitulate. Of

one thing he was sure: he had time on his side. Bernard Arnault was in too much of a hurry, he thought, and that would be his downfall: ‘If he had been more shrewd he would never have had a new board elected so quickly, he would have bided his time until the previous one reached the end of its term of office at the end of the year.’

10.05 am on Friday 17 February. Bernard Arnault sent two telexes to Louis Vuitton: one calling an LVMH board meeting for the same morning at 11 am, the other for a Louis Vuitton board meeting at 11.30 am.

At Vuitton the PR department was astonished. A board meeting could only be called at the request of a majority of its members, i.e., four in the case of Louis Vuitton. Bernard Arnault had only three of his men on the board. Who could be the fourth?

André Sacau, who was there when the telex arrived, asked the question. However, all the evidence showed it could only be him. Bernard Arnault had noticed this man who had made a success of Louis Vuitton by developing a network of exclusive boutiques in the best locations worldwide. He intended to avail himself of Sacau’s abilities and let this be known by emphasizing his competence in an interview with *Echos* at the beginning of January. This eulogy did not please Henry Racamier, who saw it as an intrusion into his company, an attempt to lead his men astray.

Today André Sacau felt torn. He knew perfectly well that he could not remain neutral. To whom should he be loyal? To Henry Racamier with whom he had built up Vuitton? To Bernard Arnault, the new chairman of LVMH which owned 98 per cent of the Vuitton subsidiary? His position was all the more difficult as he felt he was always the bridesmaid, never the bride. He felt he was still a salaried employee. Close to Henry Racamier with whom he had experienced an exceptional adventure, he resented Racamier’s triumphant capitalism, and the fact that Racamier was happy to leave him, André Sacau, in the background. The two clans were to exploit these ambivalent feelings.

11.45 am. The first board meeting that Friday 17 February, at LVMH, was over in half an hour. This time Bernard Arnault was determined. There was no time for discussion, he had to reach his goal and once and for all neutralize Henry Racamier. He took the floor and announced the agenda: the transformation of the subsidiaries into companies with a single board. The motion was

passed and the meeting wound up.

In the corridor he addressed Henry Racamier sharply: 'You made a libellous attack on me by calling me a bandit and a gangster.' The latter replied: 'I made no attack, I just made an objective statement. If you look at everything which has happened since June, all the attacks have come from you.'

12.30. Henry Racamier opened the second board meeting. The atmosphere was icy. 'I don't even know why this meeting is being held,' he said. 'I would like to know who the four members who called it are.' Then he protested that the deadline and procedures were inadmissible and contrary to received practice.

They moved on to the serious matters: the calling of a general meeting to change the statutes of Louis Vuitton. The plan was accompanied by a wider upper age limit for administrators: 70 years. Henry Racamier was 76 and his brother-in-law Jean Ogliastro almost the same. The object of the operation was obvious—to eliminate them. The proposal was put to the vote: three votes against, four in favour. André Sacau had sided with Bernard Arnault. The text was adopted. Henry Racamier, finding it hard to control his intense anger, requested the meeting be wound up. Pierre Godé continued. He suggested the names of future board members: bankers and men already in place.

André Sacau then spoke: 'I am a member of the salaried staff of this company which is 98 per cent held by LVMH, and therefore I have complied, but I have tendered my resignation to Bernard Arnault.' 'Is this a genuine resignation?' enquired Pierre Godé. 'It's a verbal resignation,' replied André Sacau.

Henry Racamier, Jean Ogliastro and Michel Missoffe then left the room announcing that they were voting against the proposed administrators. André Sacau stayed. All the arrangements were approved. The minutes were drafted that evening and brought to André Sacau the next day for his signature.

On Monday 20 February at 10 am, a fax arrived at the Avenue Hoche, this time signed by the chairman of Louis Vuitton. A new Louis Vuitton board meeting was being called for the early afternoon at the Bristol. What had happened over the weekend? Pierre Godé called André Sacau to find out, but did not manage to contact him.

At 2 pm André Sacau along with Henry Racamier and Michel

Missoffe crossed the lobby of the large Paris hotel. A few moments later the seven Louis Vuitton board members were in the small Malmaison room. For the first time an usher was present. Henry Racamier read out the agenda: cancellation of the decisions taken the previous Friday. Pierre Godé asked for the meeting to be adjourned, he wanted to speak to André Sacau. Ten minutes were allowed.

Godé took Sacau aside: 'What has happened?' He got no answer. Prostrate, Sacau repeated, 'I can't, I can't.' Godé insisted but got nowhere. Michel Missoffe and Henry Racamier were pacing around, impatient: the ten minutes were well up. Going back into the meeting room André Sacau whispered to Henry Racamier: 'Don't worry about anything.'

The motion was put to the vote. Four in favour, three against. This time André Sacau had backed Henry Racamier. The meeting which was to dismiss the chairman of Vuitton from his own company would not take place.

Bernard Arnault did not relent. Since he had not obtained the Vuitton meeting by way of the board, he would take legal action. The chairman of LVMH sought an emergency interim ruling to appoint to Louis Vuitton a provisional administrator to call a general meeting. He thought this would present no problem. Again he was wrong. His action would be the first in a long series of emergency interim rulings followed by appeals, new interim rulings followed by new appeals to postpone the Vuitton meeting until the conflict was resolved. So much so that a year later the meeting had still not taken place. But on Monday 6 March 1989, a radiant spring day on which the protagonists of what was now the 'LVMH affair' gathered under the panelling of the office of the judge of the magistrates court, nobody doubted that the conflict would get bogged down to such an extent.

'The lawsuit is permanent,' attacked Maître Prat, Bernard Arnault's lawyer. The situation was 'intolerable' owing to Henry Racamier's 'autocratic' attitude, with 'board meetings turning into veritable forums'. More seriously, no clarification had been obtainable on the Louis Vuitton accounts.

How was it possible to talk of the personal interests of Henry Racamier and his management jeopardizing the company, when, under his leadership, the company had moved from a 70 million francs turnover in 1977 to 3.2 billion ten years later, retorted

Racamier's lawyer, Maître Jean-Paul Martel. It had nothing to do with a conflict over management methods but had everything to do with a 'wish to throw out the current managers'.

The defence speeches then turned to mere outpourings, each evoking the pressures exerted on André Sacau: Arnault's to obtain his initial vote on the Friday, Racamier's over the weekend to make him reverse his allegiance. Pressures enough to make him have a minor heart attack. He would never talk again on the subject. All he would say was, 'The pressure came from both sides.'

After two and half hours of speeches Bernard Arnault felt his adversaries had an advantage. He decided to defend himself and concluded in a clear and assured voice: 'It is impossible to run this company with the presence of Monsieur Racamier.' Visibly affected, the chairman of Vuitton replied: 'By its results the management of Vuitton has shown its effectiveness. Monsieur Arnault is determined to take power everywhere and immediately.'

Three days later, on 9 March, the commercial tribunal ruled in favour of Bernard Arnault. It appointed a legal representative at Louis Vuitton charged with calling a mixed general meeting to change the company's statutes. Judge Grandjean explained his decision: his role was not to 'rule upon the cogency or otherwise of the behaviour of each of the protagonists', but 'this open conflict' could not be allowed to continue. 'Whatever the mistakes of one side or the other they could only become worse.' And he added: 'It is not a sound idea for the company to be run by a team disagreeing with 98 per cent of its shareholders.'

Bernard Arnault had not won for all that. Henry Racamier was to appeal and win his case. And from one interim ruling to another the Vuitton general meeting was successively put back to 24 April, 30 June, 15 September, 15 November and then 15 March and 30 April 1990. For the first time Bernard Arnault had encountered a real obstacle on his path—Henry Racamier's resistance. Until now the chairman of LVMH had always believed that to solve a problem it was enough to concentrate one's resources, to work harder than the others and to find the weakness pointing to the solution. That March he realized that Henry Racamier was probably a much more formidable adversary than he had ever thought. This old gentleman never gave in; worse still, he gave the impression of backing down so as to counterattack better. He liked a fight, for him it was a game, a game which threw Bernard Arnault who could not

understand it.

Racamier's pleasure in provoking his adversary would be manifest on 30 March in New York. That day, amid a riot of roses and champagne, the Comité Colbert (a grouping of 70 French luxury enterprises) was hosting a sumptuous dinner in honour of the opening at the Cooper-Hewitt Museum of an exhibition entitled 'The Art of Living' celebrating French tradition. Dior was obviously part of the Comité Colbert, but so was Vuitton...

At 8.30 pm the first guests arrived. Henry Racamier, accompanied by his wife, Odile Vuitton, dressed totally in Givenchy, was there. Affable, smiling, he lingered in the entrance hall, speaking to everyone, greeting Prince Michael of Greece, as though he were the master of the house.

An hour later Bernard Arnault appeared in the company of Dior managing director Béatrice Bongibault and his press attaché Alexandra Tchernoff. He quickly headed for his table where a man awaited him, a man in his own likeness, the young American millionaire Donald Trump. He was clearly ill at ease with the jet set gathered together at the Metropolitan Club, and it showed. The chairman of LVMH hated this type of evening. The obvious enjoyment of his adversary exasperated him. Racamier was clearly mocking him and that was something Bernard Arnault could not take.

14

WHEN THE COB INTERVENED

At the Avenue Montaigne the atmosphere was grim. That morning, 16 May, tension was at its height on the fourth floor of the Dior building. This was definitely not the moment to put any kind of question to the chairman. Engrossed in his files, Bernard Arnault was anxious. Worrying put him in a terrible mood. He lit a cigarette and took a few long drags. He who was so moderate. He never smoked, never drank too much and avoided excess. But when he was agitated he let himself go, within reason. He limited himself to one or two cigarettes, generally a Peter Stuyvesant or a Rothman's, like Chevalier.

In a few days the COB, the stock exchange watchdog, would be publishing the results of its enquiry into LVMH. What would its position be? The financiers were on the carpet. Every day financial irregularities were being denounced, along with money markets, and manipulation of the stock market. Pressure was growing to impose discipline on the financial market which resembled a veritable jungle. New legislation was being prepared. In this context everything pointed to the COB redoubling its efforts to find a chink in his armour. But Bernard Arnault could not see one. He went over events in his mind's eye and reassured himself by remembering Henry Racamier's numerous *faux pas.*

The owner of Vuitton had increased his holding in LVMH in September 1988, while he was in the management of the group and therefore perfectly aware of the excellent growth in results. Then he had sold a block of 80,000 shares at a high price (4,720 francs) on 6 January, the day Bernard Arnault had intervened. This last transaction had brought in 350 million francs for the chairman of Vuitton. If anyone was guilty of insider dealing it could only be Henry Racamier, Bernard Arnault told himself.

As for the change in the control of LVMH, Arnault felt he was totally in the clear. He no longer ran the risk of feeling obliged to mount a take-over bid. Since Férinel he had surrounded himself

with ever greater precautions each time he undertook an operation. This 'procedural' talent nearly always saved him.

It was true that on 5 and 6 January he had well and truly raided LVMH. In 48 hours he had amassed 870,000 shares or 7.5 per cent of the capital, thereby boosting the share price to 4,720 francs.[1] He had thus assured himself of the voting rights qualified blocking minority,[2] dismissed the former chairman Alain Chevalier and taken the chairman and managing director's chair. He had negotiated the intricacies of the law so skilfully that no-one could say that a change in control (in legal terms) had taken place until now. Such a conclusion would have obliged him to launch a take-over bid or to maintain the price, for a cost of around 30 billion francs. The COB had already ruled on this point when it declared on 10 January: 'Initiation of procedures to maintain the rate must take place when there is a change in control by way of a take-over bid or block transfer, which is not the case with LVMH.' It stated: 'There is no text forbidding stock exchange accumulations, even if the stock exchange authorities are thinking about this question.'[3]

Arnault was thus confident. He had bought shares to preserve the integrity of France's leading luxury goods company. He had even written a letter to the authorities explaining the motives behind his moves. The fact that the prices fell by 53 per cent after his acquisitions was not his problem. He considered himself to be in the right. 'It is not my fault if laws are poorly drafted,' he was to say later. For the time being he had nothing to reproach himself with. Arnault had then only one wish—to get it over with as soon as possible. The COB's report had been hanging like the Sword of Damocles over his head for more than a hundred days. The inspectors were going through files, examining transactions, interviewing the various protagonists. This sterile period of waiting was becoming unbearable.

On the other side of the Channel there was great fear. In his office at Portman Square Anthony Tennant's eyes were riveted to the Reuter monitor. He had always been associated with Bernard Arnault's acquisitions but a posteriori. Had he acted prudently? he wondered. If the chairman of LVMH were to be accused he would be accused along with him. After the Guinness scandal was he not risking a new stock-exchange affair which would be prejudicial to his group? Once again Racamier remained calm. He was the only

one to think he had nothing to lose and that this report would provide him with the means to crush Arnault.

In the business world curiosity was rising. The conclusions of the institution of the Quai André-Citroën, the COB, were awaited with interest. Its stance would determine the future of financial practices. Was Arnault going to get nailed? That was the question of the moment. The financiers were worried, some more than others, but especially Lazard's.

The verdict came at 2 pm. The COB considered that no insider dealing had taken place during the waves of buying carried out by Bernard Arnault and his partner Guinness. The same applied to Henry Racamier's acquisitions, which were motivated by 'strategic reasons'. An elegant way of saying speculation. The COB also ruled that the stock-exchange transactions had been carried out completely legally. The threshold declarations were 'carried out properly' and there had been no acquisitions of controlling blocks. It therefore concluded that a tender offer was not justified. The COB did not publish all its conclusions. In short, everything was in the best of order. LVMH had escaped, apparently, anyway.

The COB, which for the moment refused to take sides in the battle, renewed its criticism of the issuing of equity warrant bonds carried out by Moët-Hennessy in March 1987 before the creation of LVMH. It was to bring the whole affair to the attention of the public prosecutor's office. Henry Racamier was to seize this perch.

For the moment everyone was reassured. It was a relief for Arnault who emerged from his reserve. His declarations to the media increased: 'I have been totally vindicated.'[4] In an interview with *Le Figaro* he stated: 'I am very satisfied to see that the COB report does not criticize any of the actions I have carried out over the last year… I see this as confirmation that defending the integrity of LVMH was necessary.'[5] His legitimacy had been confirmed. The report invigorated him. It recognized his good faith. He stated clearly: 'In the future it is important for me to be able to develop this group now that all the rumours have been shown to be baseless.'

Arnault was convinced that the nightmare was over. The chairman of LVMH was going to draw up a real strategy for his group and show that he also excelled in the art of managing a large profitable enterprise: 'My ten-year objective is that LVMH's leading

position in the world be further strengthened in the luxury goods sector. I believe that there will be fewer and fewer brand names capable of retaining a worldwide presence and that those of our group will be among them as we will provide them with the means for growth [...] My plan for the next six months is to see all the group managers and increase their motivation by sharing my highly ambitious objectives with them.'

His euphoria was such that he totally shut out the COB reservations about the equity warrant bonds. However, through its structures the stock exchange watchdog was severely criticizing Bernard Arnault's banker. It was Lazard's which had issued the equity warrant bonds for Moët-Hennessy in 1987. The fact that the former directors of the company Alain Chevalier, Jean-Louis Masurel and Lazard's were in the COB's sights scarcely concerned Arnault. A banker said of him: 'In Bernard Arnault the idea of solidarity emerges when he is faced with a problem. He is then capable of moving mountains on behalf of his shareholders and backers. On the other hand, if everything is going well he forgets everyone.'

The owner of LVMH had recovered his serenity. A little too quickly perhaps. His relative youth emphasized his impatience. Even now his goal was still to make his mark in the business world, fast. Reaching the age of forty encouraged him in this direction. Plunged into this obsessional universe he was convinced that time was against him. Henry Racamier, thirsting for revenge, would know how to exploit this weak point.

Racamier would have preferred Arnault to have been accused. But he would make use of the little he got—criticism of the equity warrant bonds—to counterattack. He declared: 'There is indeed an LVMH scandal... the issuing of equity warrant bonds, one of the key elements in the *de facto* control of LVMH'.[6] This operation had damaged the small shareholders whom he invited to act in order 'to obtain the legal cancellation and immediate sequestration of the equity warrant bonds'. He would be glad to be associated with their action, indeed to take the initiative.

The dispute about the equity warrant bonds was less trivial than it appeared. It related to the ownership of 12 per cent of the capital in LVMH, which was sufficient to change the balance of power within the group. Issued in March 1987 by Moët-Hennessy two months before the merger with Louis Vuitton, the equity warrant

bonds were intended to strengthen the company's own funds. The Moët board had asked its shareholders not to take part in the operation. It had committed itself to placing the equity warrant bonds with public investors abroad. And here was the suggestion that the investment had been essentially 'private, directed towards specific individuals and carried out in France'... The report continued that the investment had been organized under conditions contrary to the decision of the general meeting by Lazard Frères et Cie. Indeed, the Moët shareholders might have been misled by Lazard's and Alain Chevalier.

In short, the stock-exchange watchdog had raised this issue, with a little less virulence, as early as 1987. But the file had been quickly closed. Now it was making fresh accusations, this time directed at Lazard's, the leaders of the operation, by suggesting that the Boulevard Haussmann bank had placed the equity warrant bonds in shell companies and taken them out again when Bernard Arnault wanted to enter the LVMH group.

This was the first time that the prestigious merchant bank had been warned so severely. The equity warrant bonds would for a long time provide a subject of conversation in the small world of business, making more than one smile. Beyond Lazard's the COB was criticizing Bernard Arnault who without this operation could not have taken control of the group. Indeed, in July 1988 the chairmen of Dior and Guinness, linked by way of Jacques Rober, managed to amass approximately 78 per cent of the equity warrant bonds—in two sessions. This gave them a total of 24 per cent of the potential capital in LVMH: 16 per cent in the form of shares and 8 per cent in the form of equity warrant bonds.[7] Subsequently, they acquired about a further 15 per cent of the capital in shares and brought their equity warrant bonds portfolio to 12 per cent through successive acquisitions. Thanks to all these transactions Jacques Rober had become the principal shareholder in the group with 43.5 per cent of the LVMH capital.

The balance of power between Arnault and Racamier hinged upon these 12 per cent equity warrant bonds. If they were questioned, Arnault risked losing the qualified blocking minority and the chairman of Vuitton would again become an influential shareholder. This is what was to be at stake in the battle about to be waged before the tribunals.

Did the owner of Vuitton really think that he could use this

strategy to eliminate Bernard Arnault from LVMH? Perhaps not. But it was an excellent occasion to seriously embarrass the person who had wanted to remove him from Vuitton.

Forty-eight hours after the COB conclusions were made public, the small shareholders in LVMH asked for the equity warrant bonds issued by Moët-Hennessy to be placed under sequestration. Racamier would follow them a little later. Henry Racamier was rich, well known and respected. He had nothing to lose. He would take any risk to block the path of Arnault's ambitions.

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1 After Bernard Arnault's raid the price fell back to 3,076 francs.

2 The capital was distributed as follows: Jacques Rober 39.6 per cent (43.5 per cent diluted); the Moët-Hennessy families 13.6 per cent (11 per cent diluted); the Vuittons 20.4 per cent (16.5 per cent diluted). The voting rights were as follows: Jacques Rober 30 per cent (35 per cent potential); the Moët-Hennessys 20 per cent (17 per cent potential); the Vuittons 30 per cent (26 per cent potential).

3 *La Tribune de l'Expansion,* 10 January 1989.

4 *La Tribune de l'Expansion,* 17 May 1989.

5 *Le Figaro,* 17 May 1989.

6 VIG communiqué, 16 March 1989.

7 1,123,455 coupons.

15
SPRING BEFORE THE COURTS

'What's he doing here? Isn't he LVMH's lawyer? Why is he pleading against me?' Bernard Arnault knew without question that Maître Jean Loyrette represented those members of the Hennessy family who in their turn were also questioning the legitimacy of the equity warrant bonds. 'Enough is enough, Loyrette's gone too far,' he thought. And he refused to shake the hand of one of the most renowned corporate lawyers in Paris.

On the first floor of the court there was general amazement. Those waiting in the anteroom of the president's office were scandalized. Such provocative behaviour was unheard of in the legal world. Whatever the cause for litigation, relations between the opponents always remained courteous. But Arnault did not give a hang about propriety. He was shocked by what he perceived as Loyrette's betrayal.

On that warm morning of 23 May 1989 the protagonists of the LVMH affair found themselves for the second time in the office of the judge Grandjean. The small shareholders of LVMH supported by Henry Racamier, and a few members of the Hennessy family asked for a ruling that the equity warrant bonds, the property of Bernard Arnault, be provisionally impounded.

10.10 am. Judge Philippe Grandjean impassively observed the audience which filled the panelled room. The thirty or so chairs lined up in front of his desk were not sufficient. There was a large crowd. Bernard Arnault, leaning with his back against the wall, would follow the proceedings standing. He counted the lawyers. What a lot of them. How expensive that must be for LVMH.

There were those acting against him: Stasi, the chairman of the Bar, first, on behalf of the small shareholders, Maître Martel next, representing the interests of Henry Racamier, lastly Maître Loyrette acting on behalf of some members of the Hennessy family. And those acting for him, Maître Prat for LVMH, Maître Darrois for certain Moët and Chandon share holders, and lastly, Maître du

Granrut on behalf of Lazard's.

In this affair nothing had been left to chance. The two protagonists, Racamier and Arnault, had mobilized the biggest names of Paris. They were engaged in a trial of strength. Both sides were firmly entrenched.

The speeches for the defence began. It was not going to be easy. The austere attitude of the judge Grandjean was neither reassuring nor worrying. As motionless as a marble statue, with his elbows on the table and rubbing his hands together, the judge of the business tribunal listened to seven and a half hours of discussion without flickering an eye. Now and again he interrupted the overlong closing prosecution speeches with a few short sharp remarks to remind the lawyers of the constraints imposed by timetable.

5 pm. The lady everyone had been waiting for started speaking. Marie-Charlotte Piniot, the COB representative, entered the fray. This bourgeois-looking woman of about fifty was to provide the first real surprise. Determined, she testified unequivocally in favour of the plaintiffs. The COB had already criticized the equity warrant bond issue. But Madame Piniot went well beyond normal bounds. For nearly an hour, with the stock-exchange watchdog's full report before her, she examined in detail the life of the equity warrant bonds since their issue.

From 1987, Moët-Hennessy had proceeded to launch a series of equity warrant bonds. The coupons incorporated in these bonds allowed subscription to Moët shares within a limit of three years, for a fixed advance price of 2,720 francs. A high price for the time. The operation produced an increase of capital over three years, amounting to a total sum of 4 billion francs, representing nearly 18 per cent of Moët's capital.[1] Only coupon holders could benefit from this increase in capital. In the context of that time, when Moët-Hennessy was seriously threatened by stock-market raids, the issue was intended, according to the COB, to put an important part of the capital out of reach.

Madame Piniot recalled that the board of Moët had undertaken to make the shares available to foreign investors. She noted, however, that more than two thirds of the shares issued had been in fact lodged with French institutional investors who had agreed to hold them for a certain time. These were the Caisse des Dépôts et Consignations, the Caisse Nationale du Crédit Agricole, Crédit

Lyonnais, the BNP and the Union des Assurances de Paris (UAP). A draft agreement had even been considered to make this commitment official. It had only been signed by the UAP.

Madame Piniot thus concluded that there had been 'a procedural violation prejudicial to minority shareholders'. More seriously, she stressed the fact that Bernard Arnault had been perfectly aware of this irregularity when he acquired his interest in LVMH. In her testimony she said that when the chairman of Dior gave up his take-over bid on LVMH and opted for a less aggressive solution, David Dautresme, a Lazard's partner, was in charge of recovering the maximum number of warrants and for negotiating the conditions of their transfer. Thanks to these dealings, Arnault had obtained nearly 94 per cent of the coupons issued, assuring him of nearly 12 per cent of the capital of LVMH.

Madame Piniot was caustic on this particular point: 'Thanks to the distinctive features of the investment which Lazard's arranged in Bernard Arnault's favour, coupon acquisition was very swift. Between the first of July and 14 July, David Dautresme was able to obtain the main part of the issue for the Arnault Group in just two stock-exchange sessions.'

Bernard Arnault remained perplexed. The relentlessness with which the COB representative raised the irregular nature of the equity warrant bonds issue and challenged his acquisition of an interest in the group astonished him. In its communiqué dated 16 May the stock-exchange watchdog refused to take sides in the Arnault/Racamier conflict. Only Lazard's was incriminated. And now it was pointing its finger at the young chairman of LVMH and virtually accusing him of dishonesty.

Arnault realized that he had been too quick to dismiss the Commission's report. His position as head of LVMH was at stake. The stock-market authorities, usually passive, had woken up and he risked losing the result of a year's efforts. The COB had got its teeth into him. That was obvious. Had it not now found in the equity warrant bonds the ideal pretext to sanction his *de facto* takeover of LVMH?

6 pm. The closing speech of Gerard Lupi, the assistant public prosecutor, was to be the dramatic turn of events in this interminable session. It was the first time that the public prosecutor's office had intervened in a financial dispute. Usually its

opinions were reserved for criminal cases. The public prosecutor asserted that he had been about to support the position of the COB but, because of ‘external information’, in other words official instructions, he had changed his position. He simply recommended a deferral of the general meeting of LVMH pending judgement on the equity warrant bonds case. A curious performance. What external advice had driven the assistant public prosecutor to revise his original intentions? It is difficult to know the source of these instructions and the motives behind them.

What influences had come into play? Had Arnault’s entourage turned to account its relations with Rocard the Prime Minister and Jean-Paul Huchon the head of his cabinet team? This was likely. Had Antoine Bernheim taken advantage of his access to the presidency? There were murmurings at the time that Jacques Attali, adviser to François Mitterrand, now the head of BERD (Banque Européenne de Reconstruction et Developpement), might join Lazard’s. A third hypothesis was equally plausible: the stance of the public prosecutor could be due to the rivalry existing between the state and the COB. At all

events, from that day onwards the public prosecutor would often decide in favour of Arnault.

With the about-turn of the public prosecutor, this purely private case assumed a new dimension. The two protagonists were convinced of one thing: its outcome would be political. This initial judgement gave the go ahead for underground manoeuvres. The agents of Arnault and of Racamier were henceforth to apply themselves behind the scenes to convincing the different administrations of the accuracy of the arguments put forward by their bosses. Both sides adopted the same strategy.

Henry Racamier counted among his entourage Frédéric Tiberghien, a former member of Defence Minister Charles Hernu’s cabinet. This government adviser had numerous contacts in socialist circles. He did the round of the ministries, resumed contact with advisers and tirelessly explained the arguments of Henry Racamier.

Bernard Arnault did the same thing. He too strengthened his strike force. Ever since he had become chairman of LVMH he had been looking for a strong political personality to espouse his cause. At one time he had thought of Hélène Ploix, former adviser of Laurent Fabius at the Matignon, who had supported him during the takeover of Boussac. But this plan came to nothing. Hélène Ploix

preferred to remain in public service and join the Caisse des Dépôts. She refused Arnault's proposal.

Bernard Arnault then thought of Jean Dromer. The former chairman of UAP had had a consultancy contract with LVMH since he had been compelled to leave the insurance company, a victim of the witch-hunt of September 1988. Arnault was at first irritated by the fees Dromer wanted but he decided, on the advice of Bernheim, to use his services. Was he not a recognized manager, well known in Parisian circles and possessing an impressive list of contacts? Above all he was a friend of Michel Rocard, who felt he had a moral debt towards Dromer as he hadn't supported him when he was forced to leave UAP. Dromer could be of use to Arnault. He appointed him therefore to the head of Financière Agache.

Thanks to Dromer's contacts, Arnault began the rounds of the ministries. As at the time of the Boussac deal he had faith in no one but himself. When under attack, he preferred to meet personally those he had to deal with. He went to see Roger Fauroux at the Department of Industry. He would also go to the Elysée to plead his cause with the President's advisers. As for the Parisian personalities, Jean Dromer invited them to 'working lunches'. The chairman of LVMH never went to a restaurant. He received his guests in one of the Dior dining rooms. The chef, whom he had sent for a period to train at the Taillvent restaurant, served the menus he liked: foie gras, grilled fish, and above all vanilla soufflé with chocolate sauce. During these *nouvelle cuisine* lunches Bernard Arnault turned on the charm in his own inimitable manner. With figures to back him up he attempted to convince his guests of the legitimacy of his position. Sometimes he succeeded, but not always. André Fontaine, Director of *Le Monde,* was heard to say on leaving: 'All the same, Monsieur Racamier is a very likeable chap, isn't he?'

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1 18 per cent of Moët represented 12 per cent of LVMH.

16

CAMPAIGN OF SEDUCTION

'Arnault drops his mask.' In the spring of 1989 *L'Expansion's* judgement was particularly severe. 'No one has any illusions left about this ambitious young financier (forty years of age) who has shown no compunction in removing Henry Racamier, the man who had introduced him into the LVMH fold. Those who were naive enough to see Bernard Arnault's rise as a succession of lucky accidents had understood nothing of the man or his technique,' wrote the journalist. The text was illustrated by a cartoon: a man with a wolf's head holding in his hand a mask of a steely-eyed and slightly greying Bernard Arnault.

On the fourth floor at the Avenue Montaigne the chairman of LVMH was in a cold anger. Such defamation was quite intolerable. The attack wounded him, particularly as in the evening his son asked him: 'Dad, are you really as bad as they say?' Moreover, at school his friends had been making comments. Not for one moment did Bernard Arnault doubt that he was in the right. If the media were attacking him like this they must be being manipulated. He was certain of it. By whom? It could only be one person: Henry Racamier. Himself or his supporters.

How could the image of his adversary have changed so? thought Bernard Arnault. At the beginning of the year Henry Racamier had given the impression of being a rather old-fashioned boss, a complicated man who did not get on well with Alain Chevalier, the autocratic and secretive chairman of a subsidiary, whose obstinancy had been instrumental in the arrival of an intruder. And now this old man was considered an exemplary and misunderstood company boss, a man waging a just battle against an ambitious young *arriviste* with questionable methods...

Such a change could not simply be a matter of chance. The re-establishment of Henry Racamier was being skilfully orchestrated. He spoke little: an interview on Agence France-Presse in February, another with the *Nouvel Observateur* a month later. In these interviews with carefully selected publications and programmes, which tended to be slightly left of centre, his message, which was

always the same, was unequivocal: he who built up his company, Vuitton, was being thrown out by a financier with no scruples. It was time to give a certain amount of autonomy back to the various group subsidiaries. A luxury goods company like his own could not be run in the same way as a wines and spirits company, Moët-Hennessy, whose products were sold in supermarkets.

Bernard Arnault was both enraged and impressed by Racamier's rise in terms of public opinion. He believed he knew its source: Michel Frois. At the beginning of the year Henry Racamier had called on the former CNPF (French employers' association) director of information to improve his image. The two men got on immediately, being of the same generation and sharing the same taste for business. Michel Frois was extremely efficient. He knew the ins and outs of the media world. There was no doubt that he was orchestrating what Bernard Arnault considered to be a campaign of disinformation.

The anger of the chairman of LVMH was all the greater as he feared that he was himself financing this campaign to destroy him. It was VIG, the Vuitton family holding company, which had called on Michel Frois and his team for advice. Was Henry Racamier not mixing the accounts? Wasn't the chairman of Vuitton having LVMH pay for the sumptious evening functions which he liked to hold, when he received the Countess of Paris or President Giscard d'Estaing at the Cercle Interallié among red roses, or at the Opera?

Henry Racamier had understood that the success of a luxury goods company was due to a certain amount of 'Parisianism'. 'He is surrounded by princesses,' a banker said of him ironically (he had taken on Princess Pauline Murat to organize these receptions). But beyond a taste for parties he also knew that they were the obligatory path for Vuitton to gain its letters of nobility. After all, as the chairman of Cartier, Alain-Dominique Perrin, liked to say, Vuitton is just waxed cloth on luggage. To make it an object dreams are made of requires a skilful and unremitting strategy involving a high profile advertising campaign, sponsored arts evenings and so on.

Vuitton's communications were therefore very carefully organized. A three-tier system. First of all Henry Racamier's son-in-law, Jean-François Bentz, along with his agency Creative Business, a subsidiary of the advertising agency RSCG, ran a prestige campaign. Photographs of distant places, a mixture of exoticism and dreams,

linked the Vuitton name with the world of travel. Then, within the company, an integrated department run by Guy de la Porte maintained relations with the arts, women's and economic press. Finally, externally, Michel Frois cultivated Henry Racamier's image.

All of this irritated Bernard Arnault whose media performance was far from being so effective. The day he took over the chairmanship of LVMH he appropriated public relations for himself. Since then, despite his efforts, he remained the hard and icy financier who had monopolized power without the least qualm. The legal battle had not helped. On the contrary, it was further tarnishing his already poor image on a daily basis.

Evidence of this growing hostility was to be found in the reaction to the sale of the last vestiges of the textile empire. When, a year before, the chairman of Dior had transferred Boussac Saint-Frères to Christian Derveloy (chairman of Prouvost), the papers spoke only of the renaissance of the Prouvost group. When, in the spring of 1989, the second part of the agreement became effective with the purchase, again by Christian Derveloy, of the Société Française du Lin, *Les Echos* ran the headline 'End of a Fairytale'. Prouvost was no longer mentioned. Attention was directed towards Bernard Arnault. He had become the man who had dismembered the textile industry, the man who, without scruples had dismissed people.

The departure of Marc Bohan from Dior would also be seen as further proof of Arnault's ruthless nature. On 11 May the women's press met at the Hotel Crillon. In a gilded room on the first floor Béatrice Bongibault introduced a bearded Italian of imposing stature, Gianfranco Ferré, the new creator of collections of *haute couture,* fur, ready-to-wear womenswear and Dior furs. It was a bombshell. For a long time there had been mutterings that Bohan's days were numbered, but to replace him without warning… Everything had happened very quickly. Two meetings in Milan had been enough to convince Béatrice Bongibault that Ferre was the man for the position, both young at forty-four, but already 'mature', with a recognized talent, a sense of luxury, able to produce 'the most beautiful things in the world'. Sure of herself, she easily persuaded Bernard Arnault, who did not want Lagerfeld—'He needs to be straightened out, he doesn't fit into the Dior mould'—nor Montana—'too modern'—nor a number of others.

Marc Bohan was dismissed. To Janie Samet, a journalist with *Le*

Figaro, he confided: ‘I learned about the news in the press.’ Under the panelling of the hotel Crillon on Place de la Concorde, emotions were running high. The director of Dior was shouted at: why such a lack of tact, of humanity to the man who had built up the reputation of the company over so many years? Soberly she replied: ‘The departure of Marc Bohan had been prepared for a long time, but the day such a decision is made public it inevitably seems brusque. Monsieur Bohan’s reaction is understandable, but it was expected.’

Béatrice Bongibault was in the front line. Of course for everyone the real villain of the piece was, once again, Bernard Arnault. His decision was all the more strongly criticized as he had had the bad taste to chose a foreigner, and an Italian, as designer for the greatest French name in *haute couture.*

That warm spring, Bernard Arnault felt the animosity around him. He could not let the climate deteriorate in this way. He had to react. But how was he to find someone as effective as Michel Frois?

It was David Dautresme, the Lazard’s partner, who suggested hiring an American, Seth Goldschlager, to take public relations in hand. Trained as a lawyer, the newcomer had been a journalist with *Newsweek.* He had a perfect knowledge of the English language press and a good lobbying technique. Lazard’s had noticed him while he was defending the Canadian Bronfman family during the sale of Martell. Did he have the necessary clout to convince economic journalists of the perfect limpidity of Bernard Arnault’s financial dealing practices? The fact is that the chairman of LVMH chose him for his international profile, while continuing to seek someone to improve his image in France. His headhunters were to see dozens of candidates before the following winter, tempting away Françoise Monard, director of public relations at Peugeot, on the advice of Jean Dromer. Monard was in fact fired after less than three months.

Bernard Arnault had attended to the most urgent things first where the media were concerned. He still had to assure himself of his support within his own company. The conflict with Henry Racamier was at its height, but the Vuittons were not the only shareholders in LVMH. The Moët-Hennessy families could be useful, even indispensable, allies. Their holding in the group was important —11 per cent of the capital and 18 per cent of the voting rights,

while Bernard Arnault and Guinness had 46 per cent of the capital and 37 per cent of the voting rights, the Vuitton clan 18 per cent of the shares[1] and 25 per cent of the voting rights, although this was on condition that the disputed equity warrant bonds, which represented approximately 12 per cent of the LVMH capital, remained in the possession of Jacques Rober.

Bernard Arnault undertook to entice the families, beginning at the top: Frédéric Chandon de Briailles. The former chairman of Moët-Hennessy had never forgiven Henry Racamier for having introduced Bernard Arnault. That day he had committed treason by bringing into the family-owned group (despite its size) a predatory financier, a man from another race. Nevertheless, now that the new chairman was in control, Frédéric Chandon de Briailles recognized his intelligence. What is more he had confidence in his youth. Therefore, along with Kilian Hennessy, another major figure in the group, he publicly supported him in an open letter published that turbulent spring.

Two weeks later Bernard Arnault thanked him: Frédéric Chandon de Briailles was elected chairman of the supervisory board of LVMH instead of Jean Arnault. The nomination was of symbolic value, showing the families' support for Bernard Arnault. Once again acid remarks were not long in coming. When Jean Arnault attended a Rotary meeting in the north of France, his friends remarked: 'The chairmanship of the supervisory board did not last long.' The too rapid success of his son disturbed people, particularly in this austere region, his own, where everyone watched everyone else and where only long-established families had the right to hold centre stage.

On Thursday 25 May, at 8.30 pm the party was in full swing at the Avenue Montaigne. On this fine summer's evening Henry Racamier was inaugurating the new Vuitton boutique which was to become the company's seat. The building, all in marble, was magnificent. The invitation stated: 'Come and take part in Louis Vuitton's journey to the land of make-believe'. As soon as they arrived the guests were transported into another world. Around the entrance, desert sand and two huge statues. Having passed through the shop the Paris glitterati found themselves in Yemen. Giant slides transformed the garden, which was covered over for the occasion, into an oasis.

Veuve Clicquot flowed freely, all the lieutenants from the Vuitton group were there: André Sacau, Joseph Henriot (Champagnes Veuve Clicquot), Jean Courtière (Parfums Givenchy). Only one face was missing: Bernard Arnault. He said he had not been invited, and anyway he did not care much for this new building which he considered Mussolinian. If the chairman of LVMH missed the party it was because he was occupied with a delicate task: that of convincing the Moët-Hennessy families to support him wholeheartedly.

At the same time Bernard Arnault left his Dior office, crossed the Avenue Montaigne and entered a private room in the Hotel Plaza where the only champagne being served was Moët et Chandon. They had all been there since 7 pm for the first meeting of this size, about a hundred cousins and second cousins of the three families, the Hennessys, Chandon Moëts and Merciers, all shareholders in LVMH. Bernard Arnault needed their confidence. He thought he had it: had not Frédéric Chandon de Briailles and Kilian Hennessy jointly communicated their support in an open letter? But then two days previously, on 23 May, when the small shareholders sought an interim ruling to sequestrate the equity warrant bonds at the Paris commercial tribunal, the divisions had come out into the open.

In reality there were a large number of families, some more powerful than others and each with its own concerns. The Hennessys owned between 500,000 and 600,000 shares (4 to 5 per cent of the capital), the largest number being held by the old generation: Kilian Hennessy, now retired, Alain de Pracomtal, the current chairman of Hennessy, Gérald de Geoffre, member of the supervisory board. All were associated with cognac and its region. They managed the company, some of their sons worked in it, they wanted to keep this ancestral tradition and the example of Martell, sold a year before, could only strengthen their resolve in this respect. The Merciers had around 100,000 shares (less than 1 per cent of the capital), the Moëts around 200,000 (close to 2 per cent of the capital), the principal shareholder being Frédéric Chandon de Briailles.

In addition to these major shareholders, around forty people held a significant number of shares, the remainder being divided up between a hundred or so cousins of the younger generation. Some of these thought in terms of inheritance, others in terms of the company, some were very *au fait* with the tribulations of the LVMH

saga, others much less so. This is why the top men, Alain de Pracomtal, Kilian Hennessy and Frédéric Chandon de Briailles, thought that a family meeting would enable them to bring everyone up to date and to agree on a strategy.

Amid the splendour of the Hotel Plaza these men opened the debate. The tone was cordial. But when Bernard Arnault appeared, embarrassing questions were raised for about an hour. Two types of concern emerged: the equity warrant bonds and guarantees concerning the future of the companies.

Bernard Arnault, who had already tried to charm the families in the autumn over cocktails at Dior, summarized the position: the COB had not incriminated him personally, having pointed to an issue dating back to before his arrival. He was confident. He set out his strategy: a great future for the luxury group. His only quarrel was with Henry Racamier, with whom he now only communicated through lawyers. But he refused to give written guarantees on the future of the companies and those who worked in them.

10.30 pm and Henry Racamier's guests were leaving the party on the Avenue Montaigne. Opposite, the Moët-Hennessy families were taking their leave of each other. Had Bernard Arnault completely reassured them? On both sides of the avenue the atmosphere was calm. It was the day of the group's annual meeting that they were to show their true colours.

Friday 9 June, 10 am, and all the financial community and the numerous shareholders of LVMH were assembled in the Intercontinental Hotel for the group's annual general meeting. The families had arrived from their provincial bases, others from London. Anthony Tennant was accompanied by two interpreters who took turns, as he did not want to miss one word of what was to be said. Numbers were such that two additional rooms equipped with video facilities had to be hired.

In this climate of merciless legal battling many had come for the show. The meeting risked turning into a second courtroom drama pitting Bernard Arnault against Henry Racamier. Would the former try to overthrow the latter? Did he have the means? One thing was certain, the meeting would allow each one to count his friends and take stock of the balance of power.

Officially everyone was in favour of reconciliation. The day before, in an interview with *Le Monde,*[2] Henry Racamier had asked

for a truce. 'For my part I believe this battle has gone on too long. It is now time to end it.' The chairman of Vuitton went as far as proposing negotiations and said 'why not?' to the appointment of an arbitrator. The same day, in *Paris-Match,* Bernard Arnault affirmed: 'Peace must be restored, I am quite ready to talk to the Vuittons.' But 'the Vuittons' did not include Henry Racamier.

When, a quarter of an hour late, the feuding top brass of this flourishing yet divided group—Bernard Arnault, Frédéric Chandon de Briailles, Pierre Godé, Henry Racamier—took the podium, the tension was fierce. The combat was not to take place. The chairman of LVMH did not take the risk. He contented himself with presenting the company results, which were again exceptionally brilliant that year. In 1988 the turn over had reached 16.4 billion francs and improved by 24 per cent, the profits of 2 billion increasing by 49 per cent. At the beginning of 1989 everything looked equally promising: at the end of May the turnover figure had increased by 25 per cent over the same period for the previous year and the projected profit for the year should increase by 30 per cent. 'A very healthy company,' concluded the chairman.

Given such performances, the resolutions, pure technicalities, could only be approved almost unanimously with 99.64 per cent of the votes. This did not, however, constitute a plebiscite. The real questions, those which everyone was waiting for, concerned the battle at the top. They came from the floor: 'Will Henry Racamier be sitting at the same table as Bernard Arnault at the next general meeting of LVMH?' asked a small shareholder.

The chairman of LVMH, standing behind an American-style rostrum, gave the impression of being perfectly calm. But his face, shown in close-up on the dose-circuit television system, was strained. His features were drawn, his look metallic blue. He had lost his appearance of well-preserved youth. Today he was drained by this guerilla warfare. All the more so as this was not his way of fighting. He liked direct confrontations and rapid campaigns. He was not afraid of difficult situations provided he could analyse them rationally and manage to place himself in a powerful position. This was not the case now. He took great care not to reply yes or no: 'A real group has to be created with a distribution of tasks,' he said. 'What is needed is a motivated management pulling in the same direction so as to implement a strategy which I have defined with all its consequences in the corporate interest.'

Henry Racamier on the other hand liked confused situations which allowed him to toy with his adversary, to ruffle him. ‘Why make things easy when they can be complicated,’ he was wont to say. For him this was not just a game. Combat was an intellectual satisfaction worth pursuing as much for its intrinsic pleasure as for the result. And so, very calm, very much at ease, Henry Racamier gave himself the satisfaction of appearing magnanimous. ‘I have found echoes of many good ideas for brand and product development which I have been supporting for a year in the speech I’ve just heard,’ he conceded to his adversary. He even added: ‘At my age I am not looking for a position or even to continue in the one I occupy. I am thinking of arranging my succession and to place someone suitably qualified at the helm of Louis Vuitton.’

Reuters was mistaken when a quarter of an hour later it issued the news ‘Henry Racamier resigns’. This was to seriously misjudge the old lion. He would not let go of his prey that easily.

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1 The Vuittons had reduced their holding to pay their debts to Paribas.

2 9 June 1989.

17
A TRIUMPHANT SUMMER

'All rise!' The usher opened the double door. Philippe Grandjean, president of the Paris commercial tribunal, a lean man with white hair, entered accompanied by five judges. His sphinx-like face was impassive. That day, Monday 3 July, he was to deliver a crucial verdict. Thirty or so people were present in court number one at the tribunal, Bernard Arnault's and Henry Racamier's lawyers, those close to each of them, and journalists. They had all been waiting for half an hour already, as the wordprocessor had broken down. It was curiously symbolic. Would the tribunal declare void the subscription coupons attached to the equity warrant bonds held by the chairman of LVMH? If so, Bernard Arnault would lose the 12 per cent of the capital in LVMH which almost gave him a majority of shares and did give him a decisive proportion of voting rights in the group, and he could be challenged. If not, he would, at the beginning of summer, be the true master of LVMH.

From the magistrates' faces it was impossible to gain any clue as to what they were thinking. Philippe Grandjean began to speak: 'Considering that… Considering that… ' There began a litany, covering all the stages in the life of the notorious equity warrant bonds, right from their beginnings. The more the chairman went on with his conclusions, the longer the faces of the Racamier clan became: Bernard Arnault's arguments had evidently had an effect.

The commercial tribunal considered that the operation had been international in scope, that it had been a public issue and not one directed to a nominated person, and that finally the equity warrant bonds were indivisible; the subscribed coupons could not be cancelled without the bonds attached to them. 'There are therefore no grounds to pronounce the nullity of the issue nor consequently to rule on their opposability,' concluded Grandjean.

In short, Bernard Arnault had won all along the line. He could have had a ruling in his favour but with mitigating circumstances for the plaintiff's suit. This was not the case. In his decision, the president of the commercial tribunal had taken into account his experience as a company boss and the relevant legislation. As a

former proprietor he had wanted to pronounce a clear and unambiguous verdict, which would put an end to the squabbles between shareholders. As a lawyer, he could not find sufficient evidence to condemn the issue, only simple presumptions.

Above all, Philippe Grandjean had disavowed the COB, and this was surprising. That spring the stock-exchange watchdog was in the spotlight. Everyone criticized it for not taking a firm stand on the proliferation of financial operations. For once, in this LVMH affair, there had been a severe verdict, harsh even. And now it was not being upheld. Did Grandjean want to prove the independence of the judiciary *vis-à-vis* an institution dependent on the government? The fact was that he was contesting the authority of this regulatory body.

Bernard Arnault was jubilant. The chapter was closed. These 'vicissitudes' were finally over. He had his hands free to run the company without hindrance, with a genuine strategy, his own. Of course his adversaries were going to appeal, indeed they would drag matters out as long as possible, forecasted the LVMH chairman, but that was of little importance; the commercial tribunal's judgement was so categorical that the court of appeal could not overturn it. Once again Bernard Arnault was crying victory too soon.

On Monday 23 July there was stifling heat in the marquee set up in the garden of the Rothschild Foundation. The Dior management had gone to a great deal of trouble for the first collection of Gianfranco Ferré. The façade of the building had been reproduced on the canopy and the guests had the impression of entering a second house with a starry sky, a fairy-like world draped in white, and strewn with pale roses. At the back a huge Dior medallion reminded them that they had come for the enthronement of the designer who held the destiny of the most prestigious of fashion houses in his hands. Would his entrance be a success?

Béatrice Bongibault knew she was playing for high stakes. A collection was expensive—at least 8 million francs—but that evening the stakes were different. Gianfranco Ferré embodied the new Dior, that of Bernard Arnault. On his success depended the industrial credibility of this controversial young owner. Rumours about him were harsh: what had Bernard Arnault done since his arrival at Dior except to unceremoniously dismiss twenty or so

people, company managers and various long-serving members of the company? In this world of fashion, where the history of the enterprise is closely linked to its oldest employees, this came as a great shock. Frédéric Castet the fur designer had left eight months earlier in the glare of publicity. When the first showing of the collection was over, he had publicly submitted his letter of resignation to Bernard Arnault and left to set up his own company. Henry Racamier did not fail to make the most of it: given this lack of continuity in management, it was hardly astonishing that Christian Dior, the greatest name in *haute couture,* had stood still for four years while all other luxury goods companies were growing. Madame Bongibault was only creating a media diversion which should not hide the economic failure of the company. Bernard Arnault and Béatrice Bongibault always stuck together.

The first dress, a second and then many others, all equally sumptuous, recalled the great days of the New Look, a homage to the designer of the 1950s. When Gianfranco Ferré mounted the podium at the end of the show, the most hard-bitten fashion writers stood and applauded. The match had been won. Béatrice Bongibault cried her eyes out, Bernard Arnault looked at her dumbfounded, she who was so strong... He did not understand. She was playing for high stakes, admittedly, but so was he, higher even. You did not cry for such things. Like the Stendhalian heroes of whom he was fond, the chairman of Dior mastered his emotions perfectly.

The triumph was not to be a flash in the pan. Gianfranco Ferré received the Golden Thimble and foreign buyers, the Americans in particular, started coming back to the Avenue Montaigne. On Thanksgiving Day, Bergdorf and Goodmann, the fashionable store in New York, devoted its window display to Dior. In Beverly Hills they did the same in the very chic Rodeo Drive.

That summer was to bring other pleasant surprises for Bernard Arnault—international recognition. On 7 August the young chairman of LVMH made the front page of *Newsweek* surrounded by his group's products: a Vuitton bag, bottles of Hennessy cognac, Moët and Veuve Clicquot champagne, Poison and Fahrenheit perfumes. The magazine may have asked the question 'Visionary or wolf?', but that was not important. For him it was the recognition that counted. It was even greater than that accorded by *Fortune* a few months before. No French business leader had ever received

such honours. *Newsweek* is a general news magazine sold throughout the world, rarely interested in the business world. That day Bernard Arnault occupied the same space as Reagan or Gorbachev. By an amusing coincidence, Arnault compared himself with the Soviet leader: 'Like him I am recognized abroad but unloved in my own country,' he said humorously.

In England, too, the owner of LVMH was enjoying a high profile. Anthony Tennant, that difficult and discreet partner, emerged from his self-imposed silence for the first time. He publicly proclaimed his support for Bernard Arnault: 'He was honest the entire time that he was being subjected to a great deal of criticism. He always said that he wanted further to improve the performance of LVMH. And I am convinced that he will succeed,' the chairman of Guinness said to *Le Figaro*.[1] He added: 'I have great personal respect for him.'

In France this declaration was surprising. It had been thought that Guinness represented a danger for LVMH. Its association with Arnault in Jacques Rober, its recent investment in Christian Dior, were these not a sign that the powerful brewery was biding its time in the wings? Tennant's declaration seemed to show the opposite.

The British establishment did not doubt Bernard Arnault's competence, nor his ability to remain master of the situation. It was often forgotten in France that LVMH owned 12 per cent of Guinness while no other shareholder held more than 1 per cent. Furthermore, LVMH could, according to the Jacques Rober agreements, increase its holding to 24 per cent, which on the other side of the English Channel almost represented a qualified blocking minority.[2] The British saw a danger here. While the French feared Guinness, the British were afraid of Arnault.

Reassured, Bernard Arnault left early in August for his house in Saint-Tropez, built in a park which had not been divided up into plots. He joined his family and some friends. His neighbours included Christian Derveloy, a leading figure in the textile industry, and the powerful Belgian Albert Frère, who some years earlier had succeeded in dominating banking and communications in his country.

Bernard Arnault was confident. True, the small shareholders in LVMH supported by Henry Racamier had appealed at the end of July and a final ruling on the equity warrant bonds would not be given until the autumn, but everything pointed to a victory for the chairman of LVMH. Strengthened by this conviction, therefore, he

responded belatedly to Henry Racamier's invitation. The chairman of Vuitton had proposed a truce the day before the LVMH general meeting. That summer, when Bernard Arnault was sure of himself, he could negotiate under favourable conditions. He therefore entrusted to Pierre Godé, before his departure for the south, the job of contacting Racamier's lawyer, Martel. It was best to avoid meeting his adversary directly so as to prevent any emotional dealings. His task was to find a compromise before the final ruling on the appeal. This would perhaps avoid the final legal stage which could harm the reputation of the company.

While Bernard Arnault was swimming and playing tennis (his two favourite sports, which he considered as much a pleasure as a duty) on the Côte d'Azur, Pierre Godé and Maître Martel were coming to an agreement. It would be valid for six years and related to the future management of Louis Vuitton and its subsidiaries (Veuve Clicquot, Givenchy) which would remain independent of Moët.

Henry Racamier managed to retain for Vuitton a company management structure consisting of a board and a supervisory board. He kept a majority on the supervisory board which would be composed of twelve members, seven of whom would be appointed by VIG. But his concessions were major ones, and related to his departure. The chairman of Vuitton accepted that Jean Dromer, the chairman of Financière Agache, would join the board of Vuitton and take over from him on a pre-determined date. On 30 June 1990, Henry Racamier would relinquish power to become an ordinary adviser. He would be head of the supervisory board of Louis Vuitton and of nothing else. A capitulation.

On Monday 11 September Henry Racamier and his friends were convinced: this draft which was to be presented to the directors of LVMH the next day would be accepted and translated into a firm agreement. Pierre Godé guaranteed it. He therefore prepared a communiqué announcing: 'An agreement has just been signed between LVMH and Louis Vuitton.'

On 12 September the LVMH supervisory board met at the Avenue Hoche. The debates dragged on. Against all expectations the draft was having a rough passage. Three objections were raised. The first and main one was that Bernard Arnault wanted future directors of Louis Vuitton to be nominated by LVMH, the parent company, and not by the Vuitton supervisory board. The board's only real

power was being removed from it. What then was the point of such a carefully constituted structure? The second objection related to the duration of the agreement which was to be reduced from six to four years. The third objection related to the guarantees given to the management teams in place at Louis Vuitton. These would be upheld, except for serious professional reasons in certain cases. In other words, nobody was protected. The discussions became bogged down, and the agreement was not signed.

'These objections do not stand up,' thought Henry Racamier on returning to Vuitton. 'They are only a pretext. Each time we're on the point of success, Godé finds a new objection. He does not like this agreement, he is just going through the motions of negotiating.' Convinced he was right, Henry Racamier took a bet on it: total acceptance just to see and prove that despite his total abdication the agreement would not be implemented. He was taking a risk: if Bernard Arnault signed he would have his hands and feet tied.

The next day, 13 September, Henry Racamier accepted the three new terms. On the 14th he received a reply from Pierre Godé: a blunt refusal, he no longer wanted the agreement. 'The bet's paid off,' thought the chairman of Vuitton who, on 18 September, along with Jean Ogliastro wrote to the chairman of the supervisory board of LVMH, Frédéric Chandon de Briailles: 'These negotiations were nothing but a sham on your part.'

Frédéric Chandon de Briailles' reply arrived on 25 September in the form of a curt communiqué: since it had not been possible to have a solution accepted which preserved the managerial unity of the group, a proposal would be made at the next Vuitton general meeting. The communiqué stated: 'Nor was it possible to obtain a commitment to put an end to the current conflicts so as to ensure a harmonious group management, without legal proceedings.'

For Bernard Arnault this was the real reason for the failure of the negotiations in the summer. This agreement was intended first and foremost to put an end to the legal wrangles. The LVMH affair had been before the courts since early spring. Over the last six months the group's timetable had been determined by one provisional court order after another, not to mention the interminable defence speeches, veritable outpourings on the firm's internal affairs. He had had more than enough. The agreement would have to be accompanied by a withdrawal of the appeal lodged by the small shareholders, supported by Henry Racamier.

And now Henry Racamier was agreeing to retire from the conflict personally, but declaring that the action in progress was that of the small shareholders, and that whether VIG was involved or not, their complaints existed. It was up to them to fight in their own way. ‘Is there any worse hypocrisy?’ thought Bernard Arnault.

Henry Racamier pretended not to understand: the small shareholders would almost certainly desist after the withdrawal of VIG, he thought, especially as a scenario had been prepared to offer them compensation and suggesting abandonment.

What was really happening? One thing was certain, Bernard Arnault did not want to take the slightest risk of signing and seeing the legal proceedings protracted. His caution was the greater as he was now beginning to get to know Henry Racamier. They had to wait until 2 November to hear the verdict of the court of appeal. Meanwhile, Henry Racamier prepared for his probable departure. He knew that if he were to lose the appeal, and everyone at the time was sure that he would, Bernard Arnault would eliminate him from Vuitton on 15 November.[3] Henry Racamier wanted, therefore, to show what he was capable of before that fateful date.

On 10 October the families and managers of the LVMH group were invited to visit the Vuitton establishment at Asnières, with journalists coming the following day. While the directors of the Arnault clan all declined the invitation on various pretexts, the Vuittons were all there for what would be a kind of testament. Asnières was the cradle of the firm and of the family. In the workshops, hard-top cases were still being made by hand. To the left, in the courtyard, a rebuilt shop served as a staff training centre and a little further away, in the museum, the oldest pieces were on display. On the right, the family house where all the Vuitton children had been born or brought up had just been restored in 1900 *fin-de-siècle* style to serve as a reception centre.

Patrick, a fifth-generation Vuitton, showed the guests around the factory and museum. Henry Racamier spoke. In a few words he traced the rapid growth of Vuitton over the last twelve years: two retail outlets in 1977, 125 in 1989, 7 million francs profit in 1977, 774 million in 1988, ‘much more’ in 1989. The conditions of this success: a careful balance between economic development and a policy of promoting the firm’s image by cultural sponsorship *(Fondation pour la musique)* and sporting sponsorship (the America’s

Cup). In short, a long-term policy. What would happen after him? To symbolize the evolution of Vuitton there were three sites: Asnières, the guardian of tradition; Cergy, a modern management centre, and the new head offices at the Arch in La Défense, the future.

All this was the work of one family. And now, in the wake of a financial venture the family risked being thrown out of its own house within a few days. And yet Vuitton's success had never been so dazzling. Emotions were high in the Belle Epoque salon in Asnières. Madame Racamier wiped a tear from her eye and left quietly. She could not understand it: how could all this have happened? Why?

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1 22 August 1989.

2 In Great Britain the blocking minority is 25 per cent.

3 It was by changing the statutes of Louis Vuitton from a company board to an administrative board that Bernard Arnault was hoping to remove Henry Racamier from Louis Vuitton. The general meeting having authority to vote on this change to the statutes was fixed for 15 November.

18

THE MISTAKES

On Thursday 2 November, in the imposing surroundings of the Paris high court, everything was poised for an Arnault victory. The senior judge of the court, Myriam Ezratty, was to hand down her decision on the validity of the equity warrant bonds. The die seemed to be cast. The court had been quite categorical and logically left little scope for any other interpretation. Moreover, by cancelling the bonds, could the court run the risk of destabilizing the company and damaging the reputation of the Paris financial markets?

True, during the last arguments on 4 October, the COB representative, Marie-Charlotte Piniot, had returned to her virulent attacks on the operation, and the lawyers had even launched a new attack, proof of the depth of feeling that surrounded the entire business. 'Pressure was put on me in an attempt to prevent me arguing the case as I wished,' thundered Mario Stasi, counsel for the small shareholders and chairman of the bar association (and also brother of the deputy and mayor of Epernay, the Moët stronghold). 'My gown is more than a symbol,' he added. 'Some captains of industry seem to think that money talks louder than the law.'

Despite everything, no one anticipated any new last-minute developments and it was almost for the sake of form that they came to hear the verdict they were expecting. At 2 pm, Madame Ezratty read out a brief statement: the equity warrant bonds would not be cancelled and would remain the property of Bernard Arnault, but 'there had been irregularities from the outset' in the bond issue! There was general stupefaction. What did she mean? Had Arnault won—after all, the bonds had not been cancelled—or had he lost? The issue had been found to be irregular. Was this a judgement of Solomon, supporting the COB while not threatening the balance of power inside the company? Everyone was mystified. The lawyers, bombarded with questions, requested a few moments to digest the court's findings.

The mystery remained unsolved as to exactly what the court had meant. For the first time ever, French justice found itself acting as referee between two men of diametrically opposed philosophies

who were engaged in what was as much a personal fight as a battle for the company. In those conditions, ruling on the fate of 12 per cent of the capital of the most prestigious conglomerate in France was an enormous responsibility, particularly since the findings would set a precedent. That was probably the reason for the ambiguity of the court's decision. Whatever its true meaning, it sealed the fate of the lawyers hired by both the small shareholders and Henry Racamier. The court had declared that the issue was irregular; it had been neither public nor international.

Only the formalities had been observed, and the 'simulated implementation had not complied with the procedure for issuing equity warrant bonds'. In plain English, they had not been cancelled for procedural reasons because, in law, when such an issue is made the warrants and the bonds are indivisible. Monsieur Martel understood: the small shareholders should have applied for not just the warrants to be cancelled, but the entire operation! He had thought about it but had not dared to be quite so audacious. 'We have been told what approach to take and we will take it,' he said, making it plain that in a few days the small shareholders would be back in court making a totally different case. This time they would apply for the entire issue—warrants and bonds—to be rendered null and void. Henry Racamier was over the moon. The chance for another battle was too good to miss.

It was a severe blow for Bernard Arnault. In a press release he attempted to play down the judge's findings by emphasizing that the plaintiffs had been non-suited, but he did not fool himself. Legal proceedings would start all over again and Henry Racamier would ask for the Vuitton meeting to be postponed yet again, the bonds to be sequestered, and the issue to be rendered null and void. This time, the chairman of LVMH was well and truly in danger of losing, and the conglomerate would be in an impossible situation. Perhaps he should have come to some kind of agreement with Racamier in September… Arnault was anxious as he sat in his new office on the seventh floor of the Avenue Hoche. (With its shades of grey, modern works of art, and photographs of Christian Dior, Gianfranco Ferré and Christian Lacroix, it was almost an exact replica of the one he had had at Dior.) Whatever the outcome of this latest battle, he was in a dangerous situation. He had to think about the possible scenarios.

If the court declared the issue null and void, LVMH would have

to repay Jacques Rober[1] for the equity warrant bonds—i.e., the bonds bought for 800 million francs and also the shares (about one million) resulting from the conversion of part of the bonds, which amounted to 2.4 billion francs—more than three billion francs in all. Depriving the group of such a sum would cause substantial damage.

One possible solution, of course, was an increase in capital. That's what Henry Racamier would suggest, but Arnault would be on dangerous ground whatever position he adopted on such an increase. If he subscribed to it, he would exceed the authorized limit under the new legislation and would have to make a take-over bid for the group. Could he afford that? Probably not. If he did not subscribe to it, there would be a change in the distribution of shares and he would lose control of LVMH. Of course, the court might not declare the issue null and void, but the case would inevitably become bogged down. It would drag on for months. He would need the total support of his partner, Guinness, and the families more than ever. He thought he had that support now, but what about in the future? There was nothing to prevent a shift in alliances some day or to stop a shareholder changing sides if there was a substantial financial gain to be made from so doing.

Arnault was furious. For things to crumble round his ears now, just when the end was in sight! Not to mention that Henry Racamier was once again going to ask the tribunal for—and be given—a postponement of the Vuitton meeting which was to relieve him of his duties. There was no way of getting rid of him. The chairman of LVMH wondered if there was a plot against him. Had this show of money perhaps caused some irritation in legal circles? Did they perhaps think that it was fine for the LVMH subsidiaries to make substantial profits, but that it was not quite the done thing for the main shareholders—billionaires—to fight like cat and dog for power?

Arnault still had a few aces up his sleeve, of course; the tribunal had never really questioned his good faith. After all, the issue had been launched by Moët-Hennessy in March 1987 at a time when he was not yet in the group. The issue had been managed by Lazard's and if he had known that there was the slightest doubt about the legality of the operation he would have bought shares directly on the market. He could have afforded it. Hadn't he been thinking at the time about making a take-over bid with Henry Racamier for 30

per cent of LVMH? A few days later, at a piano recital given at the Ecole Polytechnique on 9 November (he was a regular concert-goer), Chopin's 'Funeral March' was on the programme. 'How ironic!' Arnault thought. But this was no time for regrets, and he was thinking about how to retaliate. He had to achieve his goal and get rid of Henry Racamier. He was in a rage and that was why he was to make mistakes.

On Tuesday 14 November, an extraordinary meeting of the LVMH board was called for 10 am. Its purpose: to review the situation in the wake of the court case, to determine the consequences for the companies in the group, and to raise the question of appointment to directorial posts. In other words, to dismiss Henry Racamier from the LVMH board. Racamier had just applied to the courts to have the equity warrant bonds sequestered and the entire issue declared null and void. That was wholly unacceptable, Arnault thought. Because of Racamier, a minority shareholder, the company was in danger of having to pay out three billion francs. Racamier was not fit to do his job. He had to be relieved of his duties as managing director and deputy chairman of the LVMH board. Arnault thought that Racamier would feel so insulted that he would feel honour bound to resign from the board.

Once again he misjudged his opponent. Henry Racamier had absolutely no intention of resigning; he would not give Arnault that satisfaction. He was philosophical about it all: he gave up the title of deputy chairman, which had long been meaningless, and remained on the board. Arnault had failed, but he refused to admit defeat. Since he had drawn a blank by their tactics, he would meet his opponent on different ground. This time, there would be no holds barred.

The person who gave Arnault the opportunity to open up another front in the battle against Henry Racamier was a man called Jean Sornay, a small shareholder in Vuitton. He first appeared on the scene on 10 November, when the lawyers were making their nth request to the court for the Vuitton meeting to be postponed. It was three o'clock in the afternoon and the arguments were getting bogged down when an unknown lawyer rose to address the court. His name was Attal and he represented Jean Sornay, a pensioner living in the Var who held 50 Vuitton shares.

'If you agree that the Vuitton meeting should be postponed, you will be causing substantial financial hardship to the company's

small shareholders,' he told the court. 'There are questions we wish to ask at that meeting. Vuitton accounts for perhaps 50 per cent of the LVMH profits but it should account for a great deal more.' He criticized Henry Racamier's management, accusing him of double wage invoicing for VIG, the family holding company, the sum in question being more than 12 million francs. Everyone was astonished. Who was this man? 'One of Bernard Arnault's people,' his enemies were quick to say, 'probably an old acquaintance of Jean Arnault's that they've managed to locate.' 'A complete stranger who turned up at just the right time,' retorted Bernard Arnault, who sent Pierre Godé off to make contact with him.

It became clear what Sornay's accusations amounted to. In addition to charging Racamier with double invoicing, he was critical of his involvement in various companies: LSI and LSM, with Davidoff in Switzerland and, through a middleman in the Far East, the Bluebell Asia Company, which was apparently receiving large chunks of Vuitton profits. In order to throw light on the entire business, Sornay was suing Racamier for alleged financial irregularities. The tribunal asked for what was in such circumstances an unusually large surety: 500,000 francs. Jean Sornay signed the cheque on 15 November. The arguments began all over again, this time with reference to the criminal law code.

On Friday 17 November, a legal investigation was opened into 'the abuse of credit and misuse of company authority' by person or persons unknown. Henry Racamier immediately called a meeting of the Louis Vuitton board to draw up a defence strategy. It was a long and stormy session. Pierre Godé, Arnault's man on the board, went on the attack. He wanted confessions; Racamier demanded to be cleared. Racamier succeeded in having a statement released to the press which maintained that the operations of the Vuitton group of companies were perfectly honest. Godé was far from giving up. He wanted to know what was going on in the Far East. In the car taking him back from Vuitton on 21 November, he said to André Sacau: 'These practices are unacceptable. Let's sit down and thrash things out.' 'You're right, I'll talk to Henry Racamier, but it's very difficult at the moment,' Sacau answered.

Godé did not get anywhere, so four days later, on Sunday 26 November, he flew to Hong Kong to look into Vuitton's dealings in South-East Asia. André Sacau was a few hours ahead of him. They

all met up there: François Hilly, the company auditor, Michel Goémans, the head of Bluebell, André Sacau, the financial manager of Vuitton Asia, and Pierre Godé. Things went badly from the very start; the discussions became acrimonious and by Tuesday evening had degenerated to such an extent that Sacau changed his airline ticket so that there would be no chance of finding himself sitting next to Godé on the return flight. From that day on, the André Sacau camp was Henry Racamier's camp, because Sacau's honour and his lifetime's achievement—Vuitton—had been insulted.

On Thursday 30 November, armed with Godé's report, the chairman of LVMH lodged a complaint against person or persons unknown for culpable mismanagement of Louis Vuitton. He denounced the contracts between Henry Racamier and Bluebell Asia. Had Pierre Godé really uncovered a corrupt contract practice in Hong Kong? Rumours were rife for a month; there was talk of dubious practices that were par for the course in Asian countries, of companies acting as middlemen and getting a slice of the profits in the process. Bernard Arnault fuelled the rumours: what may be excused in a small business is quite intolerable in a company that is listed on the stock exchange and is part of an international group.

What was it really all about? No one spoke openly about it; a complaint had been lodged against person or persons unknown and the slightest snippet of information could turn into slander. Bluebell Asia was well known in the Far East. Founded in 1954 by the father of Michel Goémans to supply perfume and fashion accessories to the American army based in Japan, it had become essential to a number of luxury goods companies looking for a foothold on the Far Eastern market. Bluebell clients included such prestigious names as Boucheron, Rochas and Lancel.

Vuitton was undoubtedly the feather in Bluebell's cap, just as Bluebell was one of the reasons for Vuitton's success in Asia. Bluebell had come a long way since 1977 when Michel Goémans had first approached Vuitton. Initially he had difficulty convincing the accountants but since then he had opened the first boutique in Hong Kong, to be followed by many others. In 1989, Vuitton had a turnover of a billion francs—in the Far East. This figure, together with most of its profits in the Far East, was thanks to Bluebell. What was so wrong about that?

The weekly magazine *L'Express* revealed the 'bizarre' nature of the situation in its edition of Friday 5 January 1990: the renewed

contract between Bluebell and Vuitton was so advantageous to Goémans that he had apparently cancelled it! The article spoke of a sum in the region of a billion francs. Bernard Arnault saw this as an opening to institute proceedings that would lead to faster results than a complaint against person or persons unknown. He went back to the court and applied for the 'disputed' contracts to be rendered null and void. In a press release, he gave three reasons for this latest attack: these unorthodox contracts would mean that Bluebell Asia would receive more than a billion francs in return for—nothing! They would hand over to Bluebell the complete management of Vuitton in South-East Asia for the next five years; and they had been kept secret from both the LVMH board and the company auditors.

It was a complex business. Bluebell was an expensive partner. The association with Vuitton had originally been on a 49/51 basis; now it was 27/73, since LVMH had managed to buy back a portion of its shares. Bluebell was therefore taking 27 per cent of profits in the area. That was far too much for Bernard Arnault's taste; what he would like was purely and simply for the contracts to be cancelled. 'Why do we need a middleman?' he asked. 'Is Vuitton incapable of managing things on its own now?' He maintained that the contracts could be cancelled; they just had to wait until the end of 1989.

The only problem was that, in March 1988, the contract had been renewed for five years and was renewable for further five year periods. One of its provisions was that, if Louis Vuitton broke off the agreement or made substantial changes to it, Bluebell could sell its interest to Vuitton for eleven times the weighted average profits over the last three years—i.e., one billion francs. This was quite unacceptable, Arnault maintained, and he disputed both the form and content of the agreement. The Vuitton shareholders and auditors should have been made aware of the form of the contract. Vuitton retorted that the agreement was not subject to any such regulatory clause; it was a simple business contract which embodied no such obligation.

As for the content of the agreement, Arnault argued that the cost of buying back the Bluebell shares was exorbitant, for the price was not calculated solely on the basis of Michel Goémans' efforts on Vuitton's behalf; the calculations also took into account the margins of a wholesale business—the most profitable—that Bluebell had nothing to do with. Arnault was particularly critical of the fact that

outside companies were part of the invoicing procedure and they had apparently embezzled sums in the order of 20 million francs between 1988 and 1989.

Once again, Bernard Arnault and Henry Racamier were at odds over two radically different concepts of how to run the company. As far as Arnault was concerned, Vuitton no longer needed Bluebell to help it market its products in the Far East and so it was merely a question of not renewing the contracts due to expire at the end of 1989. Racamier on the other hand felt that by renewing the contracts he was showing his gratitude to a partner which had long been indispensable and was still useful. When the case was argued before the courts, it roused little interest. The general public does become tired of such disputes, of course, but the main reason was that the disclosures were not welcomed. Companies with contracts in the Far East were well aware that they did things differently there. Backhanders were a fact of life as were buffer companies that helped lessen the tax burden. The competition was anxious. This search for the truth about Vuitton's dealings might well bring the authorities down on them too, and nobody wanted that. Bernard Arnault was definitely becoming a nuisance...

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1 The bonds that were the subject of the lawsuit and which Arnault had picked up in July 1988 had been placed with Jacques Rocher, a company created, it will be recalled, as **a** result of the Arnault-Guinness association.

19

A STRONG COUNTERATTACK

The foyer of the Grand Hotel was packed on Thursday 25 January 1990 for the showing of the Givenchy summer collection, but for one empty chair alongside Madame Pompidou in the first row next to the catwalk. The minutes ticked by and still the show did not begin. Everyone was clearly waiting for the occupant of the empty chair; things could not start without Henry Racamier, the company chairman. Backstage, the models grew more and more tense and, out front, the fashion writers more and more impatient. They had been waiting for an unreasonably long time. The press officer telephoned Monsieur Racamier's home to try to find out what was happening. Monsieur Racamier, was not an early riser but still...

A police officer answered the telephone. At 8.30 that morning, two plain clothes inspectors had gone to the Racamier residence with a search warrant. Henry Racamier opened the door to them. Being woken by the police can be a shock for a 77-year-old, but Racamier knew immediately what it was about: Bernard Arnault again. This was the result of the complaint against person or persons unknown and the insidious rumours that were spreading. The criminal proceedings were only the beginning, the chairman of Vuitton was sure of that. His business and his entire life would be put under the microscope. Hadn't Arnault implied that Vuitton's dealings in Asia were used primarily to bolster the personal finances of the Vuitton family?

Racamier put a brave face on it as the police opened drawers, the safe and his briefcase, piling up files and all the papers they could find. As usual, he showed nothing of what he was feeling and he was perfectly polite. He knew that worse was in store; this was not the time to give way.

Over the next few weeks, the rumours became even more scurrilous. Racamier was described as virulently anti-Semitic. Jews and dogs were apparently not allowed in the store during the Occupation, according to old wartime letters and photo graphs that

turned up. Some of his detractors claimed that he held military-style parades of his grandchildren in the garden. That was the last straw for a man for whom family came first (an entire wall of his Normandy home was covered with drawings done by his grandchildren).

There was more to come. The satirical newspaper *Le Canard Enchaîné* published a letter from Jean-Marie Le Pen thanking Racamier for his substantial contribution to the National Front. The Vuitton chairman issued a denial immediately, as did Le Pen a few days later in the satirical magazine *Minute,* but it was not enough. The attacks were so bad that his closest colleagues were shaken in their belief in him. David de Rothschild, his banker and friend for fifteen years, asked him questions, as did Georges Kiejemann, the lawyer defending him on the criminal charges, and Michel Frois, his adviser.

'What do I have to do to make people believe me?' Racamier wondered. In an attempt to clear himself, he gave *Liberation* an interview which bordered on slander of the chairman of the National Front. Racamier had long been aware that documents compromising him were circulating in all the editorial rooms of Paris and even London and New York. They were all forgeries, he said. He thought he knew the source but what could he do and how could he prove it? Seemingly, the chairman of Vuitton was taking everything they threw at him. The only explanation for his calm demeanour was that he had been preparing his counterattack for a long time and a strong counterattack it was.

I have had enough, Henry Racamier said to himself. He could no longer bear the presence of Bernard Arnault's men across the table from him, let alone in his company, and he decided to get rid of Pierre Godé from the Vuitton board. At the 30 January meeting of the supervisory board, Henri Vuitton read out a statement dismissing Godé and it was put to the vote. Godé asked to be allowed to speak in his own defence and embarked on a speech, but no one wanted to listen to his arguments. Henri Vuitton claimed he had a plane to catch and moved to the vote. Godé was off the board, but that was not enough. Arnault had attacked Racamier for his management of Vuitton and he had to be paid back in the same coin. Racamier criticized Arnault for calling a halt to any further acquisitions after becoming chairman of LVMH. Had he not blocked the purchase of Tiffany which had been approved by the board at

the end of 1988? Arnault had been doing what he liked for far too long and it was time he was stopped.

Racamier decided that Guinness and Parfums Lacroix would provide the platform for his attacks. He was a member of the LVMH board and had a right to know what was going on in the group. He had always been hostile to the association with Guinness. He suspected that there were secret agreements between Arnault and the British company and was worried that the latter would take over LVMH and break up the group. He knew that since July 1988 LVMH had held 12 per cent of Guinness and had the option to increase its holding to 24 per cent, but when and on what terms? Why had Arnault always concealed the existence of these agreements?

Arnault, who claimed to be an apostle of open management, consulted nobody else in his dealings on behalf of Vuitton, Racamier continued. For that reason he criticized the launching of the Lacroix perfume which it was hoped would reduce the deficit on the couture side. (People in the business said that Lacroix lost two francs for every franc made in sales.) 'C'est la vie' was the very first creation of Parfums Christian Lacroix, the company set up in partnership by Parfums Dior, which had a majority stake (64 per cent), and Financière Agache (36 per cent). It had represented a major investment for LVMH, and yet it had never been possible to obtain any information at board level, said a reproachful Racamier. In order to throw as much light as possible on the exact contents of the Arnault-Guinness agreements and on Parfums Lacroix, he made an application to the Paris commercial tribunal for a management audit. Arnault blocked the application the very same day by announcing 'appropriate legal proceedings'. Another front had been opened.

Henry Racamier's real counterattack, however, came in the form of Orcofi. On 17 February, three weeks after a new finding by the commercial tribunal on the equity warrant bonds, just when the fight for control of the LVMH capital was dragging on and everyone was getting tired of these endless wrangles, Henry Racamier announced that he was going into partnership with the most reputable financiers in Paris to establish a second prestigious luxury goods company. 'Racamier thumbs his nose at Arnault' was the headline in *Le Monde.*

This *coup* was hailed by the press, which admired the panache of

the old man who could embark on a new venture at his age, while his young opponent was getting bogged down in endless legal fights. The chairman of Louis Vuitton had been following Arnault's financial wheeling and dealing for three years and had learned from them. The Russian doll system was efficient when it came to raising money and buying companies, so he would use it but in reverse, with VIG as the starting point. Racamier gave his family holding a parent company, and that was how Orcofi came into existence in October 1989 to cover VIG's shares in LVMH (18 per cent of the LVMH capital). Its purpose was to find new investors, which it did in three months. The list of names was impressive: Assurances Générales de France, CPIH (Elf), Francarep (David de Rothschild), Groupama, Parfinance, Paribas, and L'Oréal. The overt backing of men like Michel Albert, the chairman of AGF, and Lindsay Owen Jones, the chairman of L'Oréal, was a major source of moral support for Racamier.

Orcofi launched a two billion franc issue of redeemable bonds with a view to investing in luxury goods. The first operation, announced the same day, was the purchase, with L'Oréal, of 50 per cent of Lanvin. This had long been a dream of Racamier's and he had suggested it to Alain Chevalier two years earlier. He had met with a categoric refusal from Chevalier who said it was too expensive a proposition and it would be too difficult to restore Lanvin to health. Racamier had given up the project in 1988 but he had not forgotten it.

Orcofi was examining other projects. Was it in the running for the purchase of Balmain which in the end went to Alain Chevalier? The former chairman of LVMH, unhappy at encountering his old enemy, was convinced that it was. Racamier maintained that the rumours were circulated by Balmain's owner, Erich Fayer, to push up the price. Other possibilities were looked at: Révillon perfumes and furs, Karl Lagerfeld couture, Caron cosmetics (owned by Cora-Révillon, which wanted to move out of the luxury goods market and just retain distribution), and Carven. Not to mention that Henry Racamier had long been contemplating buying a jewellery company and investing in what he saw as the future: luxury holidays. There was surely room alongside Jet Tours and the Club Méditerranée for upmarket tourism!

Over on the Avenue Montaigne, Bernard Arnault was nonplussed. Methodical as always, for days on end he and his

lawyers had been looking for a way to win the equity warrant bond battle. Prat and Jean-Dennis Bredin were two of the best lawyers in France. Arnault had not thought for a moment that Henry Racamier would shift the battleground and engage in what he felt was unfair competition. The chairman of LVMH did not understand why the establishment of Orcofi evoked such admiration. Its capital—2 billion francs—was derisory next to LVMH's. It was madness to buy Lanvin and all its problems. 'Monsieur Racamier is not so much creating a luxury goods company, as a luxury hospice,' Arnault sneered.

It was a telling blow, however. At a board meeting, he attacked Racamier. 'You are in an untenable position. Orcofi has made no secret of the fact that it intends to establish a separate and therefore competing company. It was set up in conjunction with L'Oréal, our main competitor in the perfume and cosmetics markets. How can you be part of Orcofi and at the same time sit on the board of LVMH where you are party to all the group's strategy options?' This altercation was just one more in the series of violent arguments that had become a standard feature of LVMH board meetings.

It was a telephone call from Marc Ladreit de Lacharrière, the number two at L'Oréal, which really made Arnault sit up and take notice. The reason for the call was to convince Arnault that the Lanvin purchase was not aimed at LVMH. It and Vuitton's relations with LVMH were two entirely different matters, he said; there was absolutely no question of taking the slightest share in the group. 'Why is he so insistent?' wondered Arnault. 'People who mean you no harm rarely call to tell you so.' He began to wonder if something serious was not being planned against him.

The truth of the matter is that a secret meeting had been held on 20 November between one of Henry Racamier's financial advisers and representatives from Parfinance and the BGP. The minutes sent to L'Oréal senior executives the next day revealed the details of what was nothing less than a proposed take-over bid for LVMH. The financing was to be provided by Parfinance, Paribas, Elf and L'Oréal, and possibly also Perrier and the Société Générale. The idea was to pick up 500,000 LVMH shares (approximately 4 per cent of the capital) on the market over the next two or three months before the courts gave their final decision on the current dispute.

The next step would be to make a take-over bid for 66 per cent of the LVMH capital. The cost of the operation was put at 30 billion

francs on the basis of 4,800 francs a share.[1] The raiders hoped that the Moët and Hennessy families would part with their shares. The probable aim of the operation: to share out the various parts of LVMH among themselves, with Vuitton returning to Henry Racamier, Parfums Dior falling into L'Oréal's lap, and the wines and spirits being put up for sale.

The plan did not come to fruition. It was too expensive and too risky, and the idea was dropped. There was indeed little room for manoeuvre: Arnault and Guinness held 40 per cent of the capital and 33 per cent of the voting rights if they managed to retain possession of the equity warrant bonds. With Moët-Hennessy's 11 per cent of the capital and 17 per cent of the voting rights, they had a majority stake. Furthermore, Arnault and Guinness between them would be close to having an absolute majority in July 1991, when they would have double voting rights over all the shares bought in 1988. A take-over bid was therefore possible only if the chairman of LVMH lost both the equity warrant bonds and the support of the Moët-Hennessy families, which was too remote a possibility to dwell on.

No matter, Arnault had learned his lesson. Even if the plan had never got off the ground, he now knew that Racamier's advisers were leaving no stones unturned to find ways in which Vuitton could be hived off from the rest of the group and returned to its founder. Henry Racamier would never yield to his opponent the company he valued above all else. And Racamier still had one formidable weapon: whether he won or lost the equity warrant bond battle, whether or not he retained control of Vuitton and his LVMH directorship, he still held close to 20 per cent of the LVMH capital.

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1 They only had to buy 40 per cent of the LVMH capital to achieve 66 per cent, since Louis Vuitton held close to 20 per cent.

20
A DANGEROUS ALLY

‘Are you sure that the attempted takeover has been totally abandoned, Bernard?’ ‘I think so, Anthony. Aside from the 100,000 shares which changed hands at the end of last year, day-to-day trading seems quite normal.’ In two sentences Bernard Arnault swept aside the apparent concerns of the Guinness chairman.

On Saturday 24 March, Anthony Tennant discussed the abortive Henry Racamier/L’Oréal attempt at some length with his various advisers. While he was reassured, he still felt he should speak to his French partner. It was probably a matter of form; they had been telephoning each other every day for some time.

It was almost two years since Anthony Tennant and Bernard Arnault had, contrary to expectations, sealed their pact. Logically, the Briton should have been allied with Alain Chevalier and Arnault should have backed Racamier. Yet here they were, forming a common front against the Vuitton chairman despite their seemingly divergent interests. Guinness had provided almost half the financing for the operations that had taken Bernard Arnault to the chairmanship of LVMH. In return, Arnault enabled Tennant to make the change in the British group’s strategy a reality.

Their relationship was now more than a simple financial partnership. They needed each other, and Bernard Arnault was well aware of that. It was in association with Guinness that he had become the principal shareholder in LVMH with 43.5 per cent of the capital. He himself could only account for approximately 24 per cent of the LVMH capital, slightly more than Henry Racamier—provided the equity warrant bonds were not cancelled. If they were, Arnault’s influence would be diminished and he would need the unwavering support of Guinness. There were always the families, but they would have to form a solid block. There were over 100 Moëts, Hennessys and Merciers and between them they held 11 per cent of the capital.

Would Tennant support him? The 59-year-old Anthony Tennant, the Baron of Glenconner, educated at Eton and Trinity College, Cambridge, was a typical specimen of the British establishment. The

tall Scot, who had served in the Scots Guards, was the soul of discretion, approachable, elegant, and very down-to-earth. His employees in the whisky distilleries in Scotland were used to seeing him in a kilt. He was on intimate terms with everyone, at least in his Anglo-Saxon way, and generally addressed people by their first name.

He had always been in spirits. After a brief spell at Mather & Crowther, the forerunner of the advertising agency Ogilvy & Mather, where he looked after the Guinness account, he joined the brewers before going on to Grand Metropolitan. It was then that he met Alain de Pracomtal. A great friendship grew up between the two men. They exchanged children during the summer holidays. It was the Hennessy chairman who introduced Tennant to Alain Chevalier. Again there was a spark, and in March 1987 Tennant came to Guinness with the LVMH distribution agreement in his pocket.

The agreement had been signed for a ten-year period but was renewable every year by tacit consent. It provided the British group with a quarter of its profits, 1.3 billion francs. Thanks to this alliance, moreover, Guinness controlled 75 per cent of its world distribution through joint subsidiaries selling the products of the two groups. That was particularly important at a time when distribution was the key to success for spirits companies.

Tennant's position at the head of Guinness depended on the continuing existence of this partnership. His reputation was at stake. If the agreements were terminated, not only would Guinness lose its market leadership, it would also be severely penalized by the City of London. Consequently, when Arnault made his first incursion into LVMH in July 1988, the Guinness chairman quickly realized that he was obliged to go along with him. He had absolutely no choice in the matter. At the time it was the only way of obtaining a seat on the LVMH board and saving the distribution agreements.

Relations between Arnault and Tennant were not always easy. Anthony Tennant, used to more jovial types, was disconcerted by this young man, who appeared authoritarian and unemotional and found him difficult to understand. According to Tennant's circle, 'he didn't know what to think'.

At first, Arnault had an easy ride with Guinness. Perfectly well

aware of how important LVMH was to the spirits group, he laid down the law. The partnership in Jacques Rober, the holding company that was Pierre Godé's creation, meant that Tennant was constantly under Arnault's eye. Bernard Arnault had opened the doors of LVMH to Tennant, so it was not surprising that he was imposing his will on him. At the time, Arnault wanted to increase his influence in LVMH. He had ammunition, it was true, but Guinness's financial clout was much greater, so its support was essential to him and he had done everything to ensure that it would be given. If Guinness decided to withdraw from Jacques Rober, for example, its compensation would amount to only 80 per cent of its investment. This was one of the almost *sine qua nons* of the June 1988 agreement. The reason given by the head of Dior was that he was giving some of his LVMH shares to Guinness, thereby enabling it to make considerable savings. If the two groups had acted independently of each other, Guinness would have been buying after Arnault and would have had to pay more for its acquisitions. It was a good ruse. This clause meant that Arnault could use Anthony Tennant to further his ambitions. How, in these conditions, could Tennant break the Jacques Rober contract? His board would have dismissed him on the spot.

Guinness was submissive for the first six months and systematically followed where Arnault led. Arnault made good moves. Admittedly, circumstances helped him a great deal but, as usual, his ally's weak points were central to his plans. The distribution agreements were not his only trump cards. In particular, Guinness was involved in legal proceedings as a result of the financial scandal which had erupted in 1986. While they were in progress, Arnault could count on Anthony Tennant being extremely prudent, not to say docile or passive.

Tennant had taken over the reins of the company to improve its severely tarnished reputation. Curiously, Guinness owed its supremacy in the spirits business to its stock-exchange problems. The group, which was founded in 1759, had long survived on a single, world-famous product: stout. On the basis of that one brand the company had succeeded in becoming part of British tradition. Legend has it that when Prince Albert died, Queen Victoria ordered stout to be added to all the champagne served at Buckingham Palace as a sign of mourning.

Because the company was too dependent on this one product, it

had always been eager to diversify. At first, Guinness bought everything it could lay its hands on in fields that included cruise ships in the South of France, pharmaceuticals, glass, and publishing *(The Guinness Book of Records)*. This was too motley a collection and the company was being stifled by its sheer size. Ernest Saunders, a brilliant manager and strategist, was brought in. The first thing he did was to put the company on a strict diet before he too began to diversify and made an attack on the spirits market. This was Saunders' hour of glory, when everyone praised his decisions and his vision. Then one fine day, in the spring of 1986, he decided to make a record take-over bid (approximately 30 billion francs) for Distillers, the last great whisky producer on the market. Saunders had his sights on Johnnie Walker whisky and Gordon's gin. If Guinness were successful, it would control almost 40 per cent of the world's whisky market. It was an ambitions project.

Saunders was not, however, the only one in the running. Argyll, a large conglomerate, much larger and healthier than Guinness, was also a candidate. Convinced he was right, Saunders mounted an operation that was international in scope. He knew that he could not compete with the Argyll offer in cash terms. He decided on a mixed operation: part share exchange (Guinness for Distillers), part cash settlement. The more the Guinness share price increased, the more attractive Saunders' offer became. He therefore asked his 'friends' to make massive purchases of Guinness shares in order to keep the price up while the deal was going through. In return, he would pay them large commissions. This was duly done, and Distillers fell to Guinness in 1986.

However, Saunders had made a bad choice of friends. The arrest of Ivan Boesky, the famous American arbitrageur and one of those closest to Saunders, rang alarm bells. To lighten his sentence, Boesky 'squealed' on his accomplices. Thanks to an Anglo-American cooperation agreement, the City authorities opened an enquiry. Their investigations led to charges being laid against Saunders, of course, but also against several of the biggest names in British finance.

This episode left its mark on Guinness. Its credibility had suffered but, most importantly, investors and financiers distanced themselves. It was three years before the company knew how much compensation it would have to pay. Major financial decisions were impossible: Guinness took out no new loans and abandoned its plan

to introduce its shares on the leading financial markets. Thus major investments were also impossible. For three years, Anthony Tennant walked a tightrope. He constantly assured bankers and analysts that the group was healthy, but they were not convinced. Matters did not improve until the conclusions of the enquiry were published.

Now, having paid substantial penalties, Guinness was exonerated and was prosperous once again. Its shares were among the most attractive on the London stock market. But its name remained notorious. Its former directors would be in court for months, in what the British were calling the trial of the century. Arnault was well aware that the legal proceedings which Guinness was mixed up in would come to an end one day. Consequently, his relations with Tennant became more relaxed at the beginning of 1989. True, Chevalier's departure had made it easier for the two men to talk to each other. Arnault's humour was appreciated by Tennant's circle. When one of Tennant's advisers remarked to Arnault that he was wearing a Dior suit and a Givenchy tie, the latter retorted: 'And what about your shirt?'

Arnault had realized that he needed this ally to neutralize Racamier and he made greater concessions, in his own way at least: he increased Guinness financial contributions to his projects by revising the Jacques Rober[1] agreements and opening the doors of Christian Dior Couture[2] to Guinness. The two men even began to cultivate each other, with adversity bringing them together. Now they had embarked on the same battle, standing shoulder to shoulder against the owner of Vuitton. The Guinness chairman, who was particularly sensitive to stock-market fraud, had been deeply shocked by Henry Racamier's actions, especially during the COB enquiry. He saw now that Racamier was an embarrassment. Since then, Arnault and Tennant had rung each other every day. Basically, the two men had the same feelings towards Henry Racamier but they expressed those feelings in totally different ways. Where Arnault was curt and sometimes abusive, Tennant was the embodiment of British stolidity.

When the Guinness shares were being introduced on the Paris stock exchange, Tennant held a reception in the gardens of the British embassy to which he invited the owner of Vuitton who was in the middle of legal wrangles with the chairman of LVMH. To Tennant's amusement, Racamier and Arnault ignored each other, keeping their backs to each other as they moved about the garden

to make sure they would not have to shake hands. The relationship between Arnault and Tennant would remain harmonious for as long as it took to eliminate Racamier completely. But what would happen afterwards?

Guinness had always been Bernard Arnault's best joker. Arnault had often maintained that he was the only person who could ensure that the group remained in one piece. As long as he was there nobody would dare attack the world's leading luxury goods company. However, if his situation became less secure Guinness or another large foreign group might buy up the wines and spirits. But Arnault knew that, in the long term, the stakes for Guinness went beyond Moët et Chandon champagnes and Hennessy cognac. Even though spirits were very profitable they were a high-risk business. Taxation and anti-drinking campaigns were eroding the group's comfortable profit margins a little more each day. It was essential to secure the rear by diversifying. Seagram had done so by buying the chemical group Du Pont de Nemours, and Grand Metropolitan was moving into the agrifood industry. Guinness could well do the same thing with luxury goods. It already had a toehold in the market in the shape of Hédiard, bought in 1986, and a prestige hotel chain, the jewel in the crown being Gleneagles. It was in this magnificent Victorian building that Tennant welcomed his family and friends at weekends. Chevalier was a regular guest. Arnault had been invited several times but always declined, pleading pressure of work.

Hédiard and Gleneagles were just bridgeheads. Tennant probably wanted to go further. He often stressed the importance of the fact that LVMH was a single unit. The appointment of Anthony Greener—who had spent ten years of his life at Dunhill—to the group's board must mean that Tennant attached as much importance to the luxury goods side of LVMH as to its wines and spirits. For the time being Arnault thought he had little to worry about. His group was the principal shareholder in Guinness.[3] The two allies were at the same point. Once they were rid of their respective problems, the situation would change. Would Bernard Arnault's intelligence get the better of the financial power of Guinness? Would Anthony Tennant always be such a reliable ally if Henry Racamier was eliminated?

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1 Guinness increased its holding in Jacques Rober from 40 per cent

to 45 per cent.

2 Crédit Lyonnais sold its 16.8 per cent share in Christian Dior to Guinness in April 1989.

3 LVMH had held 12 per cent in Guinness since July 1988. The group also had the option of increasing its holding in the capital of the British company to 24 per cent. Arnault had not yet been able to do so because of the conflict with Henry Racamier.

21

VICTORY

At 2.10 pm on Thursday 26 April 1990 Pierre Godé rushed down the steps of the Palais de Justice with Seth Goldschlager at his heels and Jean Géosits several yards behind. They looked pale and downcast; nothing pointed to victory and yet...

Godé jumped into one of the two Renault 25s parked on the pavement along the Seine and Seth Goldschlager into the other. The first car belonged to LVMH, the second to Guinness in London. 'Hello, Bernard, we've won.' '...' 'Bernard, can you hear me?' 'Are you sure, Pierre? What grounds were given?' 'The court of appeal upheld the verdict of the commercial tribunal in January. The issue has not been cancelled. I can't tell you any more, I left very quickly and the grounds are still with the tribunal... ' Bernard Arnault was alone in his office. It was the end of 18 months of dispute, more than a year of legal proceedings. He was to keep the equity warrant bonds and his position as head of LVMH could no longer be contested. With his British partner he held 46 per cent of the shares and 38 per cent of the voting rights.[1] In a little over a year, when he had double voting rights on all of his shares, he would have an absolute majority.

Was he elated or intensely relieved? He probably did not know himself but he knew that his calm demeanour and the air of confidence that he had projected in the last few weeks were only a façade. He had in fact feared right up until the last minute that the court of appeal's ruling would go against him. After all, the president, Madame Myriam Ezratty, had ruled against him last November. Today he had won. The court had not gone into complex reasoning. The session had lasted barely five minutes. One terse phrase said it all: 'The court of appeal upholds the ruling given on 19 January by the Paris commercial tribunal.'

That day, the president of the tribunal, Philippe Grandjean, had refused to declare the issue of the equity warrant bonds null and void. Citing 'the force of *res judicata'* he had merely stated that, in his opinion, the meaning of the court of appeal's ruling of November was that the issue was indeed illegal, but that

nevertheless there were no grounds for cancelling the coupons held by Bernard Arnault. The last piece fell into place on Thursday 26 April when the court of appeal upheld Grandjean's ruling. The issue was illegal but it could not be cancelled since the court considered that Bernard Arnault had acted in good faith when he acquired the subscription coupons and the associated shares.

That was the only thing that mattered to Arnault. He had pleaded his good faith in the matter and he had been vindicated. He could keep the equity warrant bonds. The fact that other legal proceedings were still in progress did not worry him at all: they could not affect the future of LVMH.

He was scarcely any more concerned by the fact that he had lost the case against the management of Louis Vuitton in the Far East, for that same morning he received two other pieces of news. At a quarter to twelve, the president of the commercial tribunal had nonsuited Henry Racamier's application for a management audit of Parfums Lacroix and the agreements signed with Guinness. Then, at midday, he rejected Arnault's application to have the contracts between Vuitton and Bluebell Asia cancelled. The tribunal had nonsuited the plaintiffs in both cases, as if to indicate to all concerned that it was time to put an end to the constant arguments and legal proceedings. One magistrate said in private that the tribunal was weary of having to judge between a 'senile old man and a young upstart'. Grandjean put it more elegantly in the preamble to his ruling: 'Whereas both parties have repeated their accusations and mutual suspicions...'

Seth Goldschlager passed the news from the second car to London, which immediately advised Anthony Tennant who was on holiday in Bermuda. Jean Arnault heard the news at the same time as Yvonne Rossi, Bernard Arnault's loyal secretary. 'I had asked her to let me know, as I knew Bernard would not have time,' he said.

At the Bristol, Antoine Bernheim found it hard to converse with the editor of a large Paris newspaper whom he had invited to lunch. His thoughts were elsewhere. He kept coming back to Bernard Arnault: 'A very loyal chap,' he insisted. The banker had reason to worry. If the issue was declared null and void, the chairman of LVMH might turn against Lazard's, the bank which had orchestrated the entire operation. The threat was all the more serious as the assistant directors were personally liable. By 2.15, he could bear it no longer and went in search of a telephone. He was

back within two minutes. 'Good news,' he announced on his return, smiling broadly. However, Lazard's did not really escape unscathed, for the issue was still considered irregular. But the worst had been avoided.

At 3.30, seven or eight journalists went to the Avenue Hoche. Jacky, Bernard Arnault's chauffeur, a great beanpole of a man with salt-and-pepper hair and moustache, holding a walkie-talkie pressed against his ear, announced the name of each of the arrivals on the seventh floor—the chairman's. Bernard Arnault received them in his office, offering them tea and cakes. There was not the slightest trace of enthusiasm on his face despite having just lived through some of the most exciting moments of his life.

The discussions began laboriously. Nobody congratulated him, and nobody dared broach the crux of the matter: what was he going to do? Little by little he explained himself: 'This ruling puts an end to the entire affair. LVMH will no longer be the centre of media and legal attention. There will be no more Dallas-style battles. At last I can attend to what really matters: LVMH business.' He was thinking about the strategy of the group which had had to be put on hold 18 months previously. It might be based on acquisitions 'but not acquisitions on any terms'. Arnault had always refused to pay more than a company was worth and he was not going to change that policy. He also praised the excellent results of Louis Vuitton, but did not fail to underline its weaknesses: it still focused too much on its designer luggage and was at the mercy of the vagaries in the yen zone. Again he insisted on the group concept: a federation of complementary companies with a central strategic unit. That was a point of view which right from the start had set him against Henry Racamier who was convinced of the virtues of a confederation of separate companies under the umbrella of a purely financial holding company.

Arnault was to repeat this on radio and television. That evening on the 8 pm news programme on Channel 5, Guillaume Durand asked him what he wished Henry Racamier. 'Good luck,' Arnault replied. At 4.30 on the afternoon of Friday 27 April, the telephone rang at the head office of Louis Vuitton in the Avenue Montaigne. 'Can I speak to Monsieur Racamier?' 'Monsieur Racamier is no longer on the premises. He has left the company.'

It had all happened very quickly for the chairman of Vuitton. As soon as Racamier learned of his defeat, he announced his

resignation from the chairmanship of Louis Vuitton and the board of LVMH. Fourteen of his colleagues, all of them part of the management of Louis Vuitton, did likewise. They included André Sacau, Michel Missoffe and David de Rothschild who perhaps understood him better than the others: 'I know what it is like to lose your business,' he told him. Racamier asked others in the company to stay in order to prevent a mass exodus.

His resignation was not just a whim. He had stopped having illusions a week ago and started to make his preparations for departure. On 20 April he had held a working meeting in his Avenue Montaigne office. All possible scenarios were considered, but only one was looked at in detail: failure. That was the day he decided to leave and not give Bernard Arnault the ultimate satisfaction of sacking him like an ordinary employee. Over the next few days he discussed his resignation with his family, members of the board and members of the supervisory board. Not all of them felt he was doing the right thing. Some were in favour of a more dramatic leave-taking. They wanted Henry Racamier to attend the Vuitton general meeting planned for 30 April and for him to be dismissed by Arnault's men so that the new management team would take over to the accompaniment of boos and catcalls.

But Henry Racamier did not want to cause a scene; it was 'not the right thing to do'. He wanted a dignified exit. He had no difficulty persuading those close to him of that and he began to stage his departure. Once the court gave its ruling, he put the plan into effect. At 4 pm he called a meeting of the Louis Vuitton supervisory board and officially submitted his resignation. At 5 pm he said his farewells to the staff at the Grande Arche (he went to Asnières the next day). At 6 pm he returned to the Avenue Montaigne, and held a press conference on the second floor. Hovering behind the columns some employees were discreetly listening in. Emotions were running high and tears were shed.

Henry Racamier left the company for good the next day, moving to the Orcofi offices on the Champs-Elysées. He was almost 78 years old but he talked solely about the future. 'The world is a big place, there are plenty of things to do, great adventures to undertake.'

Jean Dromer replaced him as chairman of Louis Vuitton, while Jacques Kosciusko Morizet took over as head of the supervisory board. In appointing a French ambassador Bernard Arnault was reviving an old custom of Alain Chevalier. Yves Carcelle, the former

chairman of the home textile chain Descamps, who had been with the group for six months, succeeded André Sacau. Racamier's seat on the LVMH board was given to one of the principal shareholders in Moët-Hennessy, Alain de Pracomtal, as a token of Arnault's gratitude for the support the families had given him over the last few months and as a way of ensuring their loyalty in future. The appointments took immediate effect. Everything was ready. Jean Dromer had been destined to take over the chairmanship of Louis Vuitton since the abortive negotiations of the previous September.

The day after his victory, Arnault, who had been waiting for months to take over Racamier's personal domain, announced on the radio station Europe I that he intended to go to Vuitton's that very day. This rather hasty declaration aroused strong emotions. The veterans at Vuitton felt that the young victor could at least have had the decency to wait a few days. He was acting like a conqueror, yet another sign of his lack of humanity. Arnault realized his mistake in time and waited until the weekend.

On the Monday he entered the Grande Arche for the first time and toured from top to bottom the three floors occupied by the Louis Vuitton offices. 'Rather stark for a luxury goods company,' he thought, 'quite different from Dior.' He met the twenty-two directors of the company and reassured them: everyone would stay, there would be no mass dismissals. In fact four persons, militant supporters of Henry Racamier's, who had pleaded his case with some force, were sacked. Bernard Arnault could not forgive them for having said 'horrible things' about him.

This first visit was the start of Arnault's 'total immersion' in Vuitton. The LVMH chairman took a month to familiarize himself with the company's operations: its products, marketing, accounts, management, finance, contracts and projects. He had two priorities: a strategy for diversification which would not affect the success of the famous monogrammed fabric, and sustained expansion in the United States to offset the over-dependence on South-East Asian operations. This led to the New York boutique being made twice as large and three other outlets being opened in Philadelphia, Denver and Chicago in the summer.

Arnault's self-assurance was increased by his position having been made official that morning. The famous Vuitton meeting, which had been postponed by the courts for more than a year, finally took place at 10 am in the Elysee Room of the Bristol.[2] On

the platform Jean Dromer and Pierre Godé flanked Jacques Kosciusko Morizet, the symbolic triumvirate of the new Vuitton. Several bankers and close colleagues of Arnault were in attendance but there was nobody from the old team. All the resolutions that LVMH wanted were adopted with a majority of 98 per cent of the vote.

Only one shareholder, an angry old lady in a black beret who had 300 votes, dared 'timidly' to oppose the new team. 'I learned of Henry Racamier's departure with sadness,' she said. 'Louis Vuitton shares have fallen almost 40 per cent while LVMH securities have been going up. Is Bernard Arnault interested in the 2 per cent of shares held by small shareholders?' She abstained or voted against all the resolution. A little later, at the buffet, she asked for Veuve Clicquot champagne, announcing loudly: 'I will never drink anything else until the end of my days.'

Bernard Arnault had well and truly become part of Vuitton, but he and Henry Racamier had not yet finished with each other. The LVMH chairman was convinced that he had won once and for all and that Henry Racamier would end up selling him his shares. After all, Racamier had ambitions to set up a luxury goods company through Orcofi in partnership with L'Oréal and he would need money for that. Why would he hang on to a block of shares that gave him no power? Arnault did not know the former chairman of Louis Vuitton very well. Racamier was not yet ready to capitulate. With 17 per cent of the LVMH capital, he intended to keep a close watch on what was happening so as to be sure that the company 'remained on the right lines'. Could he do that? He was doubtless counting on the fact that there would be developments in the relations between Bernard Arnault and his British ally. He was surer than anyone that Arnault was invincible only if he retained the support of Guinness.

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1 The Moët-Hennessy families now held 11 per cent of the shares and 17 per cent of the voting rights, the Vuitton family only 17 per cent of the shares and 24 per cent of the voting rights.

2 This was the ordinary general meeting which was meant to approve the Louis Vuitton accounts for 1988. Originally scheduled for February 1989, it was postponed several times pending the outcome of the equity warrant bonds dispute. It was at that meeting

that Bernard Arnault had hoped to overthrow Henry Racamier.

22

THE GREAT FAMILIES

‘Champagne, cognac, travel, beauty… Their creators are taking luxury to the highest degree of perfection, offering sublime pleasure and unbounded wit and refinement.’ These words on the last page of the luxury group’s lavish annual report separate dreams from reality in a few lines. LVMH and the various companies in the group are worlds apart.

For the 50,000 or so people[1] directly or indirectly involved in the battle between Arnault and Racamier, LVMH probably did not exist. Moët et Chandon, Veuve Clicquot, Hennessy, Christian Dior, Christian Lacroix, Givenchy, Céline and Louis Vuitton, not forgetting Mercier, Ruinart, Canard Duchêne, Delbard, Loewe, Bon Marché, Conforama, Belle Jardinière and even the Jardin d’Acclimatation were always able to disassociate their name from the surreal LVMH.

Nevertheless, the man at the head of LVMH had the right to inspect all of them. He certainly had the impression of being the true proprietor of each of them, but it was only an illusion. Alain Chevalier had left, but that did not prevent the companies from carrying on and functioning brilliantly. The respective fates of Arnault and Racamier, like the outcome of their conflict, was perhaps observed with the same indifference.

There was no such thing as an LVMH culture; instead, there was a host of individual corporate cultures, something which was all too often forgotten by the pretenders to the throne. It was by force of circumstance that this structure, which really only existed in the mind alone, controlled twenty companies with differing traditions. They kept a watchful eye on each other; there was no love lost between them. Each one had its own internal history. It was for purely financial reasons that they found themselves married. Their forebears would not have countenanced such an unholy alliance.

The Grand Aristocracy

The Champagne families, proud and reserved by nature, reacted

with contempt and even condescension to the Arnault/Racamier confrontation. Neither man came from the region. Even worse, they knew nothing about and hardly ever set foot there. At Epernay they had been used to aristocrats who were the children and grandchildren of aristocrats and Arnault could not claim to go back that far. In a society where tradition remained important, few doors were opened to him, even if he tried twice as hard. However, he thought he had the best relationship in the world with the Champagne aristocracy. After all, a certain countess wrote him poems in English on his birthday.

The trials and tribulations of the LVMH conflict were a matter of complete indifference to the six champagne companies in the group, which together accounted for almost 14 per cent of world champagne production.[2] It was the team of Yves Bénard and Frédéric Chandon de Briailles—descended from the founding family—who watched over the fate of the largest company in Champagne, Moët et Chandon. They were the sole guarantee of quality. As long as they were there, the company's 1,600 employees and managers were content.

Moët, independent in the extreme, was run primarily by Yves Bénard. A local man, he was the unanimous choice. It was he who was charged with the difficult task of negotiating with the wine-growers' unions, and the job of keeping the peace in a particularly sensitive industry fell to him. The prosperity of the company ensured that his employees were the best paid in the region, in France even.[3] As for Frédéric Chandon de Briailles, he embodied tradition and durability. A former chairman of Moët et Chandon, he was a strategist and a man who worked to achieve consensus. Without him, the chairman of LVMH would have found it extremely difficult to unravel the mystery of champagne.

Bernard Arnault rarely ventured into this world. On the insistence of his close advisers, however, he did try to increase the number of his visits. His interest had certainly been roused by the 900 hectares of vineyards which the group owned. This was land of inestimable value which, under the terms of the merger between Moët-Hennessy and Louis Vuitton, was the property of the LVMH holding company.

It would appear that Bernard Arnault attracted more sympathy than his adversary, but this was probably a victory by default. For one thing, Arnault had the patronage of Fred Chandon and for

another he benefited from Racamier's blunders—he had maintained that champagne was a supermarket product. The Champagne families were not too angry with him, but they did not hold him in high esteem. The Chandons and their cousins the Vogüés, a branch of whose family had once owned Veuve Clicquot, had not forgiven the Vuitton chairman for his schemes. The wounds of the Champagne aristocrats had still not totally healed after the brutal acquisition of Veuve Clicquot by Henry Racamier and they had been made worse by the failed merger. In their eyes, the chairman of Louis Vuitton would remain a *nouveau riche* luggage maker.

Feelings were the same in Cognac, several hundred kilometres to the south-west of Epernay. The Hennessys, the only French family of importance in the region, were firm allies of Bernard Arnault. They followed where Kilian Hennessy and Alain de Pracomtal led, even though some young members of the family were restless.

The most profitable of the LVMH companies, producing almost a quarter of the volume of cognac sold in the world, Hennessy had been run by the family for 200 years. Its great fear was that it would suffer the same fate as Martell, which had been bought by Canadian money, or as Rémy Martin, embroiled in an unpleasant family quarrel. The Hennessy family was linked to the history of the region. Some people even remembered they had sold their house in Jarnac to the President of the Republic. As long as the battles between the shareholders did not affect the solidity of the Charentais company, the wine growers and the others involved were quite happy. Arnault was far away, very far away and his visits could be counted on the fingers of one hand.

LVMH was not real enough to be a subject for concern. It only attracted attention when Kilian Hennessy or Alain de Pracomtal became involved in it. The only thing that mattered was the family's emotional attachment to the soil. Everything else was to do with Paris and did not disturb the tranquillity of the Charente.

Entrenched in their ancient traditions, reserve and sense of decency, the two great aristocrats of champagne and cognac, whose marriage had passed off very smoothly, were forced into less happy unions by the force of circumstance.

The New Nobility

The most ill-fated of the alliances was the one with Louis Vuitton.

An enforced marriage, it had never been consummated. The members of the families and others involved in the two companies had not got to know each other.

Louis Vuitton, founded during the Second Empire, had been shaken out of its sleep by Henry Racamier and was still moving at his pace. A popular, even charismatic, figure, in the eyes of his employees he perfectly embodied the spirit of Vuitton, more so than the Vuitton family itself. Aware that the success of the group was often attributed to Racamier, the Louis Vuitton employees were fascinated by him, even those in the Asnières workshops where laser beams cut the three million hides used every year in the manufacture of bags, trunks and other monogrammed luggage. With the consummate art of a stage director, Henry Racamier succeeded in gaining the sympathy of all kinds of people.

It was true that for some time he had been seen less often at Asnières. His Paris business was taking up too much of his time. However, he came as often as he could. He explained the ins and outs of the war he was waging against Arnault. Naturally, Bernard Arnault was seen as an intruder who was causing difficulties for the well-liked old chairman, especially since he had criticized the management of the company.

At the Paris head office Henry Racamier was admired by everyone. They all tried twice as hard and used twice as much ingenuity to plead the cause of the chairman of Louis Vuitton and to overcome Bernard Arnault, enemy number one. Racamier's managers and entourage were always on the alert. At every crucial stage in the exhaustive legal proceedings, Racamier's co-workers destroyed the documents and placed their files under lock and key. They continually packed and unpacked their bags depending on the court's findings, disheartened one day, on top form the next and ready to continue the fight.

Louis Vuitton was very healthy. Travel accessories brought in around a billion francs a year for LVMH, a not insignificant sum which whetted all appetites, particularly the most ferocious ones.

The Demi-Mondaines

To quote Chevalier, 'What is perfume but champagne set to music?' Perfumes represented sales of 4.5 billion francs for the group, which marketed more than 15 different lines, including Givenchy III,

Ysatis, Xéryus, Poison, Fahrenheit and Miss Dior. These famous names had now been joined by Parfums Christian Lacroix, not to mention Roe cosmetics. Perfume operations were run by Maurice Roger for Parfums Dior and Jean Courtière for Parfums Givenchy. The former very quickly found a close affinity with Bernard Arnault. Several of his colleagues were angry that he should have adapted so speedily. Even though Roger's authority was not questioned within Dior, his good relations with Arnault were very often looked at with mistrust.

At Parfums Dior the managers and employees took a close interest in the shareholders' dispute that brought Arnault and Racamier into conflict, perhaps because they were closer to Paris. However, some of them still regretted the departure of Alain Chevalier. The current chairman of LVMH did not immediately inspire them with any great confidence. He did not intervene in the day-to-day running of the company but neither did he make any great effort to win them over. He relied on Maurice Roger, who kept a close watch on industrial relations. Roger's orders, like those of his boss, were very clear: toe the line or resign. When someone in the group dared to support the small shareholders in their case against the equity warrant bonds held by Bernard Arnault, Maurice Roger reminded him of the famous options open to him before asking for his resignation.

At Givenchy, Jean Courtière was engaged in a much more perilous exercise. Historically in the domain of Henry Racamier—Louis Vuitton had inherited Parfums Givenchy when it bought Veuve Clicquot—Givenchy had remained impartial in the conflict between the directors of LVMH. Jean Courtière made it a point of honour to maintain this neutrality until the end. Perhaps he felt closer to Bernard Arnault...

The Grand Bourgeoisie

A natural complement to perfumes, fashion, which was as solid as the grand bourgeoisie, held an important position in LVMH. Arnault himself owned almost half of the brass plates on the Avenue Montaigne. The brightest star was still Dior. Its turbulent history had certainly not affected its prestige. It was in close proximity to its owner, who had moved his offices into the Dior building. His cold manner was intimidating, even though the seamstresses and

sales assistants grew used to it.

The changes which followed the arrival of first Bernard Arnault and then Béatrice Bongibault came as a shock to a number of people. Some left; others, long used to lax management, fell into a deep depression. But the company was taken in hand. Arnault was particularly interested in Dior. He was amused by high fashion, and liked attending the rehearsals for the various collections, watching Gianfranco Ferré adding hats or putting the finishing touches to the accessories worn by his models.

In the Avenue Montaigne, the only signs that LVMH existed were the people who came to see Arnault and the reductions given to group executives. Like the members of the Moët and Hennessy families they enjoyed a discount. LVMH was no more in evidence at Christian Lacroix, Bernard Arnault's real masterpiece. This new fashion designer, whose talent was praised worldwide, had been launched with great pomp by Arnault. The investment had been costly and had still not borne fruit. Sales amounted to one billion francs, but profits were non-existent. Obviously this did not please Bernard Arnault and apparently he had recently shown his disappointment: it was time the company became profitable. At Christian Lacroix they feared the time when the accounts had to be submitted to Arnault.

At Céline, on the other hand, they had been having marvellous results since being bought by Bernard Arnault, and particularly since the arrival of Nan Legeai. The American had rejuvenated the company. The traditional brown bags were now red and had gilt chains, preppy accessories gave way to jangly bracelets. The new Céline showed off its success at the Ritz in February 1990 by presenting to Paris society its first ready-to-wear collection which went down very well.

In contrast to Céline, Givenchy Couture reacted badly to its change of ownership. Maurice Marchand-Tonel, formerly with the Boston Consulting Group, the director appointed by Henry Racamier, changed old habits. He criticized the cost of collections: Givenchy showed 170 models, far more than other designers, who limited themselves to 90 or 100; fabrics all came from the best, but also the most expensive, supplier—Abraham; licences were not monitored. All this made relations between Hubert de Givenchy and Henry Racamier stormy, to say the least. It was another sign of the traditional conflict between the old nobility and the new.

The Nouveaux Riches

In addition to this plethora of prestigious brands and fragrances, Bernard Arnault also reigned over the comparatively new field of distribution with the Bon Marché, Conforama and Belle Jardinière group.

The synergy between the various activities was not evident at first glance. If he had ambitions to head the largest luxury goods group, what was he doing with Bon Marché, Conforama and Belle Jardinière? That was the question being asked by the employees of these large stores, which each year generated a profit of around half a billion francs on sales of approximately 7 billion francs.

They lived on the rumours and speculation fuelled by Arnault's personality. They were all frightened that their company would be sold. After the troubled times of the Willot era, the large stores had just about got their breath back. Would it be temporary? Nobody knew.

The Chairman's Money Losers

There were two money losers in this motley group: Delbard roses and the Jardin d'Acclimatation. Since the acquisition of Delbard by Alain Chevalier, flowers had been a constant feature at Moët-Hennessy. Magnificent bouquets were in evidence at all company celebrations. Christian Tortu, the florist associated with Delbard, made new arrangements every Monday for the Avenue Hoche and Avenue Montaigne premises. These were predominantly white, a profusion of hyacinths and tulips in square vases with leaves carefully placed to conceal the stems.

The Jardin d'Acclimatation, which, year in, year out, attracted 1.5 million children, had been inherited by Bernard Arnault from Boussac, which had fought to keep it in existence when it had been threatened with closure after the war. The chairman of LVMH, whose children were too old for roundabouts, still had a miniature railway and an enchanted river in his empire.

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1 LVMH covers almost 12,000 people, Financière Agache 15,000 and Guinness almost 20,000.

2 Of the 250 million bottles of champagne shipped in 1989, more

than 34 million were sold by companies belonging to LVMH.

3 At Moët et Chandon, salaried employees receive more than 10,000 francs a month.

23

THE NEW ARNAULT

On 26 September 1991, the chateau of Vaux le Vicomte was ablaze with light. Once again, Bernard Arnault was the toast of Paris. He had chosen the residence of Fouquet (Louis XIV's finance minister) as the scene of the incredibly lavish launching of 'Dune', the new Dior perfume. The guests, adorned with gold, amber and mother-of-pearl, were intrigued. Standing at Arnault's side and greeting them was a tall young blonde woman in an embroidered white dress. Who was she?

The question was on everyone's lips as the orchestra struck up a waltz and long skirts swished over the parquet floor. She was Arnault's new wife. No one knew, but the previous week, on 18 September, in a village in the South of France, he had secretly married Hélène Mercier, a Canadian pianist a few years his junior. He had begun to find life good again since meeting her ten months previously. His look had softened, he was laughing again, he had let his hair grow a little, and he was enjoying his food so much that he had had to start taking artificial sweeteners in his coffee. He was even to be seen at the flea market in the afternoon! For the first time in his life he was wearing a wedding ring (which he had not done before). That evening, at Vaux le Vicomte, he showed his happiness in public. He had every reason to be happy. He had wasted no time since winning the battle with Henry Racamier. Now that there were no more courts and no more procrastination to contend with, he was back in his stride and busy consolidating his position. He was equipped to face with equanimity the crisis that was brewing.

In the days that followed his victory, his prime concern was to adjust the balance in his relationship with Guinness. The British brewery owned about 25 per cent of LVMH through Jacques Rober and Dior. The French group, however, owned only 12 per cent of Guinness. Arnault had been wanting to increase that share for more than a year but had been prevented from doing so by the endless legal wrangling which had threatened his available funds. He had his plan ready down to the last detail, however, and all that

remained was to put it into effect as soon as possible.

A clever financier, he had found a way to minimize the cost of his investment. The operation, launched on 31 May, was to proceed in two stages: the purchase of a block of 4.9 per cent by mutual agreement, followed by a partial takeover of 6.8 per cent of the Guinness capital. The cost would amount to eight billion francs, the largest foreign investment by a French company in 1990.

In London, the official Guinness reaction was to welcome the LVMH move. In fact, however, Anthony Tennant would have preferred a different formula and in particular a different approach. His colleagues had actually drawn up a plan for an increase in capital for LVMH, which would have had the twofold advantage of strengthening the brewer's equity position and being a little more expensive for Arnault. Arnault, however, had beaten them to it. Anthony Tennant was travelling in South-East Asia and to ward off his wrath, Arnault sent Jean Dromer to Tokyo the day before launching the operation and once again presented the British company with a *fait accompli*—politely, of course, or at least as politely as he knew how.

So Arnault established his power on the other side of the Channel. With 24 per cent of the Guinness capital he was the largest shareholder of the group, since the second largest shareholder after him had only 5 per cent of the capital. Anthony Tennant was quite well aware of that. That may perhaps be why he gave up chairmanship of the group on reaching retirement age. His replacement, Anthony Greener, was a man of Arnault's generation.

Six months later, opportunity knocked once more at Arnault's door in the form of a visit from Antoine Riboud, the chairman of BSN. He was offering Pommery and Lanson, the champagne companies, on a plate. It needed only two telephone calls—one to Yves Bénard of Moët et Chandon and the other to Joseph Henriot of Veuve Clicquot—for Arnault to reach a decision. This was a wonderful opportunity which he had to grasp at all costs. Pommery and Lanson were prestige brands; annual sales of 14 million bottles, a reserve of 50 million bottles, turnover of one billion francs and net profit of 80 million francs. Above all, there was an additional 500 hectares of vines located in a region where there was nothing left to buy. That was a considerable asset, since it meant that LVMH could increase the size of its vineyard ownership by 50 per cent and produce five million bottles of top quality wine. The deal was

finalized in ten days and Arnault wrote a cheque for 3.1 billion francs. Once again he had made a good deal; three months later, he sold Lanson for close to 1.6 billion francs to Marne et Champagne in partnership for the occasion with Allied Lyons.

Arnault derived particular pleasure from this *coup* because it meant his financial situation was stronger than ever. Since the summer of 1990, the French branch of Carlo de Benedetti, Cerus, a shareholder in Arnault et Associés (the group's main holding company), had been looking to sell its shares. Cerus was very heavily in debt and had begun a programme of divestment, starting with its 18 per cent of Arnault et Associés. It intended to get the best possible price for its shares and Arnault could not be indifferent to the identity of the purchaser. He did of course control 60 per cent of the company and had the support of Crédit Lyonnais which owned 10 per cent of it, but Arnault et Associés was the keystone of his empire and the shares that were up for sale must not fall into the wrong hands.

Paradoxically, the stock-market collapse following in the wake of the invasion of Kuwait was to work to his advantage. Cerus had put an asking price of one billion francs on its Arnault et Associés shares but was forced to halve that figure. Crédit Lyonnais, which had shown no interest at the higher price, then considered the situation and ended up paying 570 million francs for the 18 per cent of Arnault et Associés, increasing its holding to 28 per cent. More than ever now, the state-owned bank was Arnault's largest partner at the head of the group of holding companies that controlled LVMH. Arnault was not concerned about the bank's predominant role; there was no need to worry about the finances of a nationalized bank.

It was at that point that Henry Racamier laid down his arms for good. He realized that he could no longer rely on Guinness as a means of getting his revenge on Arnault. Arnault had neutralized the British brewery and consolidated his position. In a word, he was unassailable.

Moreover, the former chairman of Vuitton had problems to attend to at Orcofi. His holding company, which had gone into debt to finance an ambitious programme of expansion, was feeling the effects of the crisis. Vuitton handed over the reins of power to Gérard Eskénazi, the man who helped him at the time of the abortive take-over bid for LVMH in January 1989. Some of

Racamier's partners took this opportunity to bow out of Orcofi, first the Pargesa group and then Paribas. They exchanged their stock for LVMH shares still held by Racamier. (Since Orcofi was not a listed company, there was a clause entitling shareholders to be paid in LVMH shares.) The old lion was forced to sell. He closed the chapter with no regrets.

Arnault now had a free hand. He devoted himself to running the world's leading luxury goods company. His investments had been costly (11 billion francs between Guinness and Pommery). He had to get out of debt and, most importantly, build up his war chest again. One of the companies in his galaxy did not quite fit in with the others. Conforama, which was prosperous and had in the past enabled him to raise money, no longer suited a strategy based solely on luxury goods. It was time to sell.

Arnault contacted his old friend François Pinault, who two years earlier had bought the building on the Boulevard de la Tour-Maubourg that for a very brief time had served as LVMH's head office. Pinault, a Breton, was ten years older than Arnault. Their careers had followed similar paths. Like Arnault, Pinault had taken over a bankrupt company (La Chapelle d'Arblay, a paper-maker) which had enabled him to build an empire. Again like Arnault, he could separate the grain from the chaff. At present he had his sights on large-scale distribution and had recently purchased La Ruche Méridionale CFAO. He was bound to be interested in Conforama, the leading furniture distributor with 10 per cent of the market.

Pinault did indeed listen closely to what Arnault had to say, but the question of price proved to be a stumbling block in the way of negotiations. Pinault did not want to pay more than four billion francs for Conforama. Arnault studied the figures and it took him no more than a weekend to find a solution; a clever two-stage financial arrangement.

First, Bon Marché, the holding company which controlled 86.5 per cent of Conforama, would increase its capital by 4.4 billion francs. That would be earmarked for Pinault, who would then have 37 per cent of the capital of Bon Marché. Next, the Pinault group would make a take-over bid cum exchange offer for Conforama. Conforama shareholders would then be paid in either cash or Bon Marché shares. Arnault would then include virtually all of his Conforama shares in the exchange offer, be paid in Bon Marché shares and pocket the rest in cash.

At the end of it all, Bon Marché would have improved its equity situation and picked up 500 million francs in liquid assets plus 25 per cent of its own shares, the equivalent of three billion francs. Financière Agache's share in Bon Marché would fall from 52 per cent to 45 per cent but Arnault still had more than 50 per cent of the voting rights.

Once this operation was completed, Arnault decided a little tidying up was needed and eliminated a number of intermediate companies. The pyramid which his group formed from now on would have only two strategic levels: Bon Marché, the pivot on which all else depended, and Christian Dior, held by Bon Marché. It was the second major link in the chain since it held 55 per cent of Jacques Rober which in turn owned 46 per cent of LVMH. This house cleaning meant that Arnault was in a position to go back to the market after an absence of three years.

In early December, Dior applied for listing on the stock exchange. Arnault had promised this back in 1988 when embarking on the first restructuring of his group in preparation for the attack on LVMH: he was now keeping his word despite the market's lack of enthusiasm. On 4 December, 'a star was born';[1] 1.3 million shares (6 per cent of the capital) were put up for sale at a unit price of 410 francs. Approximately half of the shares were offered by prospectus in France while the remainder were offered abroad. There was a massive response from international investors who applied for four times as many shares as were available. The domestic offering generated less interest; on their first day on the market, Dior shares were trading at 404 francs.

Those who bought them did so more for the sake of LVMH than the fashion house, whose problems were still not entirely solved. Some months earlier, Arnault had, in a few brief words, sacked Béatrice Bongibault, who had been hired to put the fashion house back on its feet. Arnault had uncovered instances of financial mismanagement; Bongibault refuted the accusations and took the matter to court. Her replacement was Philippe Vindry, who had restored the fortunes of the Bon Marché stores on the Left Bank.

These are minor irritants as far as Arnault is concerned. He has every reason to be satisfied. His group weathered the 1991 recession much better than most of the competition. He has been named 'Man of the Year' by the Franco-American Chamber of Commerce in New York, receiving his award on 17 October 1991 at

a gala dinner held at the Plaza Hotel opposite Central Park.

The new Bernard Arnault was on view that evening, and he managed to surprise his audience of four hundred business men. ‘I won’t bore you with a long speech,’ he said. ‘Instead, let me play you some Gershwin.’ He rose and, together with his wife, crossed the dining-room to where the piano stood. They played ‘Kicking the Clouds Away’, arranged for four hands. It was his wife’s idea; she found the piece, arranged it while she was on tour in Canada and sent him the score by fax so that he could learn it.

Everything is smiling on Bernard Arnault but will he be content with having achieved what he sent out to achieve? He is, after all, only forty-two.

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1 The slogan advertising the Dior listing was ‘A star is born’.

EPILOGUE

'By the time I'm seventy, I'll have retired long since.' Was Bernard Arnault to be believed?—perhaps. The head of LVMH was surely more honest and more honourable than he may have appeared to some critics to be. He said what he meant and he meant what he said. He had wanted Boussac and he had got it. He had said he would be the top name in luxury goods and he was. Such brutal frankness had not always served him well. He was not taken seriously at first and now he was being subjected to unreasonable criticism.

He had worked from the time he was a child and he had never stopped working. His father had never had to tell him to study. That was all he had ever done, and when he took over Boussac, he asked his father to buy all the textile reference works so that he could swot up on the business just like at school. Even the sports he excelled in—he had for example won a number of trophies at the Roubaix riding club—and music, his favourite hobby, were a kind of victory over himself.

Was he more intelligent than other people? At all events he had determination and he never gave up. The will-power forged by the strict upbringing he had received from his grandmother meant that he lived a lonely life, setting him apart from the other members of his generation and from the business establishment.

He was not like other people. Even at the age of nineteen he was different. In May 1968 when all his fellow students had taken to the streets and were on protest marches or sticking up posters, he remained outside the 'cultural revolution'. His single concern was that lectures should not be cancelled because of what was happening. He thought about only one thing: passing his exams and being accepted for the Ecole Polytechnique.

This solitude was to be his constant companion. He was never wholly to trust anyone, apart from his father whom he appointed to the boards of his various companies. He kept his joys and his sorrows to himself. He was impassive whatever the circumstances. What did he think of other people? It was exceedingly difficult to tell; he showed nothing of his feelings except on a few occasions

when his gaze softened for a moment. He retained his boyish looks for a long time but his features hardened during the long struggle with Henry Racamier, which was the first real setback in his meteoric career.

When he was on his way up he could see no point in worldly pleasures unless of course he was practising self-denial. Only one friend, Michel Lefebvre, ever succeeded in dragging him into a night club. Ten minutes after arriving at the Caves du Roy in St Tropez, Arnault said, ‘Don’t you think we’ve seen all there is to see?’, as if he had been studying a file on night clubs and had totally familiarized himself with it.

He was no fonder of eating out. However, on the best day of his life, the day Boussac became his, he went to Ledoyen’s, the fashionable Parisian restaurant, to celebrate with the team which had helped him to victory and to recover from his first television appearance. Nor did he care much for fancy social events, which he felt were a waste of time. However, the battle with Racamier opened his eyes; his opponent’s success was partly due to the fact that he was one of the Parisian elite and had contacts. Arnault learned from that, and the parties he threw—to celebrate Dior’s fortieth anniversary, the launch of Parfums Lacroix, the first Céline collection—were extremely lavish affairs. When he did accept an invitation, it was to dine at the Elysée or with Mrs Thatcher.

This was not ostentation; it was work. Vincent Bolloré, the chairman of Bolloré Technologies, described him as ‘rolling in money’,[1] but it was not riches that he sought. He drove a Peugeot 205, his house in the 16th *arrondissement* of Paris was warm and comfortable rather than eye-catching; the rooms were decorated in various shades of white, there was an enormous library, a few good pieces of furniture, and contemporary art on the walls. His children were not excessively spoiled. When his fifteen-year-old daughter Delphine asked for a Dior dress, he refused, telling her she was too young.

Fish, shark or wolf, the zoological epithets bestowed on him by certain businessmen referred to a façade which served to hide a degree of sensitivity, the one chink in his armour. ‘What will people think of me?’ was Arnault’s constant preoccupation. He was hurt by criticism in the press; he needed recognition, affection. He did not understand how politicians could bear to be permanently at the mercy of the changing whims of voters and political analysts. He

was now in the media spotlight, and he did not feel at ease there. He was vaguely aware that it was necessary, but he did not quite know how to please. He was convinced that he was in the right but he knew that that was not enough. You had to make people like you —but how?

His strength lay elsewhere. His success was founded on what could almost be called a Napoleonic strategy: select the right target, attack the enemy at the right time and in his weakest spot, and leave nothing to chance in the ensuing battle. One of his favourite jokes as a child on holiday in Le Puy had been to tickle his grandfather's asthmatic chauffeur with ferns.

On a more serious note, he turned Ferret-Savinel into a real-estate developer when the construction of second homes was in full expansion. He was the first to grasp fully that profit could be made from taking over an apparently lame duck like Boussac, and he had the courage and the audacity to take a gamble. He then made a substantial capital gain by selling Peaudouce when the company was worth most. His next feat was to find Christian Derveloy at a time when the latter needed to rebuild his empire around Prouvost and to sell him the remnants of Boussac's textile interests on terms that were better than expected. Most important of all, in the midst of the stock-market crash, he identified the target he would home in on: LVMH. In October 1987, at a Siècle[2] dinner, he said to a financier, 'Did you see that LVMH is trading at only 1,200 francs?'

While his star was in the ascendant, Arnault had made full use of the flaw in the system, the fact that the rulebook had not kept pace with the changes in the financial markets. The French stock exchange had followed in the footsteps of Wall Street and the City, albeit a few years later. Takeovers, mergers, dawn raids multiplied at record-breaking speed. In 1987, the most spectacular deal in Paris was Seagram's purchase of Martell for the then unheard-of sum of five billion francs. Two years later, transactions in excess of 10 billion francs were a common occurrence, Suez/Nictoire (27 billion francs), and Paribas/Mixte (18 billion francs), and so on.

The rule-makers were soon out of their depth. In an attempt to avoid the prohibitive costs of risky and expensive takeovers, the cleverest operators were aiming instead at taking a controlling share by stealth, which was not condemned by the law. Arnault was one. By regularly buying shares on the market, he ended up in control of LVMH, became chairman and upset the balance of power

between the shareholders—and the COB could not compel him to make a take-over bid which would have cost him around 10 billion francs.[3] He had acted just in time. A few months after he was elected chairman, the authorities made radical changes to the rules governing both the stock exchange and the COB. Thereafter it was impossible to acquire stock on the market without attracting attention; a take-over bid had to be made as soon as the 33 per cent threshold was passed. Curiously enough, this very mechanism, which in the past should have acted as a brake on Bernard Arnault, now—*a priori*—made him inviolable; anyone who wanted to mount a raid on LVMH would have to be able to put at least 40 billion francs[4] together, which was a great deal of money.

Moreover, Arnault had benefited from the fact that Lazard's, the merchant bankers, were everywhere in France. It was preeminent in financial restructuring operations and so had the choice of the best clients. Lazard's, both judge and judged, was almost always on the winning side and on Bernard Arnault's. At the age of 41, Bernard Arnault personified the new breed of manager born of a crisis, with no qualms about using high finance as a springboard to success.

It was no coincidence that his friends were men such as Albert Frère, Claude Bébèar, Jacques Letertre and François Pinault. 'For this moment and every moment to come', Dior's latest advertising slogan, could have been his motto. Speed had long been his ally. Férinel, Boussac and LVMH had all been quick victories following his usual pattern: identification, decision, action, result.

Now, perhaps, that same speed was his enemy. It had taken him six months to become chairman of LVMH and then he was forced to mark time for eighteen more. This inability to make headway caused him to make his first mistakes. He could have waited for Racamier's term of office to come to an end and for the sixty-eight-year-old Racamier to leave of his own accord. Instead, for the sake of speed, making no attempt to handle Racamier tactfully, he had focused his sights on him, and the shareholders' dispute had turned into single combat between the two men, a type of battle that Arnault did not have the weapons to fight. His logical mind rendered him incapable of understanding and anticipating his opponent's moves. Arnault is logical but he is not much of a psychologist. He admits as much: 'I don't have a devious mind. I'm too inclined to say exactly what I think and sometimes that has unexpected and even disastrous results.' He thinks that his

opponents will act as he would in the same situation—reasonably. He is incapable of grasping that they may be motivated by different interests.

Henry Racamier is the exact opposite of Arnault. He likes to cover his tracks. He is unpredictable and knows just what to say in order to rouse his opponents' wrath. He manipulates that anger and takes delight in doing so. Racamier is an iron fist in a velvet glove, Arnault an iron fist in an iron glove. Impatience plays a leading role in the Arnault style of management and that is a handicap in the luxury goods business, where investment can take a long time to bear fruit. It took Yves Saint-Laurent fifteen years to move into the black. How long will Arnault wait for Christian Lacroix to show a profit?

If Arnault has a religion, it is efficiency, so much so that people no longer dare invite him to lunch for fear of meeting with the 'Have we anything to say to each other?' answer that has passed into legend. Each moment counts. Since his days at Férinel, he has travelled everywhere by private plane, even to Ascot. The British aristocracy may go there by Rolls Royce with a picnic hamper in the boot but Arnault comes by helicopter from Heathrow and leaves as soon as the racing is over.

He does not compromise. He overturns everything in his path. It is totally foreign to his nature to use his contacts, to compromise his beliefs, to show solidarity with other corporate high-fliers. He relies on no one but himself and does not want to be in anyone's debt. Above all, he has to be in control of events. It is not surprising that the only man who truly fascinates Arnault is Giovanni Agnelli. The chairman of Fiat embodies both the supremely successful industrialist and unequalled power. That, in Arnault's eyes, is what it is all about. Politics is ephemeral; companies have a durability which guarantees the only real power worth having. And Bernard Arnault has a taste for power—and luxury.

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1 At a business awards ceremony, organized by *Expansion* in the spring of 1989.

2 A very select club whose members are the top decision-makers in Paris and who have dinner at the Automobile Club one Wednesday every month.

3 In December 1988, Arnault held approximately 32 per cent of

LVMH's capital. If he had been compelled to make a take-over bid, he would have had to buy an additional 19 per cent, or a little more than 2 million shares at a minimum of 4,700 francs each.

4 Since the new stock-exchange regulations came into effect, a take-over bid has to be made for at least 66 per cent of the capital. Since LVMH was capitalized at close to 60 billion francs, a takeover would cost not much under 40 billion francs.

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